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THE HISTORY, PRINCIPLES, AND PRACTICE OF BANKING.

BY THE LATE

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NEW EDITION, REVISED TO THE PRESENT DATE,

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THE

HISTORY, PRINCIPLES, AND PRACTICE

OF

BANKING.

SECTION XXV.

THE ADMINISTRATION OF THE OFFICE.

IN this Section we shall consider the following topics:—

I. The Arrangement of the Office.
II. The Selection and Appointment of the Clerks.
III. The proper Distribution of their Duties.
IV. The Amount of their Salaries.
V. Their Sureties.
VI. The System of Promotion.
VII. The Rules of Discipline.
VIII. The Training of Clerks for higher Offices.

I. The arrangement of the Office.

The proper situation of a bank is a matter of some importance. It should be situated in what is deemed the most respectable part of the town. If it be placed in an inferior locality, approachable only by narrow and disagreeable streets, and surrounded by buildings the seats of smoky and dirty trades, it is not likely to be so much frequented, nor to acquire so large a business, as though it

were more pleasantly situated. Another point to be observed is, that the bank itself should be a handsome building. The necessary expenditure for this purpose is no sin against economy. It is an outlay of capital to be repaid by the profits of the business that will thus be acquired. A portion of the building will probably be set apart for the private residence of the manager, or of some other officer of the establishment. It is desirable that this portion should be entirely separated from the office. The communication should be only by a single door, of which the manager should keep the key. The building should be so constructed that what is going on in the private house, whether in the kitchen, or the nursery, or the drawing-room, should not be heard in the bank. The office being thus isolated, must then be fitted up in the way that will most effectually promote the end in view. And here are three points to be considered—*space*, *light*, and *ventilation*.

A chief consideration is *space*. A banker should take care that his clerks have room enough to do their work comfortably. Every accountant knows that he can often work faster if he can have two or more books open at the same time; but if his space is so confined that he must shut up one book, and put it away, before he can use another, he will get on more slowly. The cashiers, too, will be much impeded if they are obliged to stand too close to each other; and the public will be huddled together, and will often count incorrectly the money given to them, and thus take up the cashier's time to put them right. Want of space will necessarily occasion errors, from the confusion it produces, and from one clerk being liable to interruption from the noise or vicinity of the others. A banker should therefore take care that his office is large enough for his business; and that it will admit of being enlarged in case his business should increase. Ample space is also condu-

cive to the health of the clerks, as there will be more air to breathe, and the atmosphere is less likely to become polluted by the burning of lamps and candles.

Another consideration is *light*. It is well known in every London bank, that fewer mistakes are made by the clerks in summer than in winter. Abundance of light prevents mistakes, and saves all the time that would be employed in the discovery of errors. Light is also of great importance to the cashiers in detecting forged signatures and bad or counterfeit money. Thieves are also less likely to attempt their robberies in a light office than in a dark one. Faint or illegible handwriting can be more easily read, and hence mistakes are less likely to occur. The clerks, too, perform their duties with more quickness and cheerfulness. The gloominess of an office throws a gloom over the mind; but "light is sweet, and a pleasant thing it is for the eyes to behold the sun."

The lightest part of the office should be devoted to the clerks. We have observed sometimes a violation of this principle. The entrance door has been placed in the middle of the front, with a window on each side, and the counter thrown across the room, so that the lightest part of the office has been given to the public. It is better that the entrance be placed at the right or the left corner, and the counter be made to run from the window to the opposite wall. The light will thus fall lengthwise on the counter, and the space behind the counter will be occupied by the clerks.

Ventilation.—Volumes have been written by medical men upon the advantages of fresh air, and on the unwholesome atmosphere of crowded cities. If the air that circulates in the streets of towns and cities is impure, what must be the state of those offices or rooms where twenty or thirty persons are breathing close together during the

whole of the day, and gas lights are burning during the evening? In such cases we are told that a person afflicted with consumption of the lungs may communicate the complaint to others, as they must inhale a portion of the atmosphere which he has breathed out. The air in a close office is not only rendered impure by the number of people that breathe it, and by the burning of gas, but it also contains very frequently particles of dust arising from the floor, through the number of people constantly walking in and out. It is almost impossible for persons so circumstanced to enjoy for a length of time even moderate health. A portion of this evil may be mitigated by a good system of ventilation. To obtain this should be regarded as an object of the first importance. If a banker does not insist upon the architect performing this in the most effectual manner, he must be content to be often put to inconvenience through the illness and consequent absence of his clerks.

Having made due provision for space, light, and ventilation, it will now become necessary to arrange the counter, desks, and other furniture, so as to enable any given number of clerks to discharge their duties with the greatest efficiency, and so as best to promote the public convenience. It is not necessary, or possible, to give very minute instructions on this head, as much will depend upon the form of the building, the extent of the business, and other circumstances. We will notice only a few general objects to be kept in view.

It is desirable at all times to make those arrangements that shall best promote the convenience of the public.

The counter should be readily accessible, and of sufficient length to meet the requirements of the business; and the cashiers' desks sufficiently wide apart for the public to be promptly served, and to stand without jostling one

another. Some banks have two counters, one for paying, and the other for receiving. When the business is large, extra or supernumerary cashiers are appointed, who take the place of the regular cashiers when they are absent at dinner or otherwise, so that during the whole of the day all the cashiers' desks are occupied. To relieve the counter, the payment of bills that have been presented in the morning and not paid, is usually received at a separate desk or office. All these are expedients that should be adopted when necessary, to save the time of the public. There are few things that try a man's temper more than to be kept waiting a long time at a banker's counter; and he will be very apt to give vent to his impatience by quarrelling with the clerks, or reproaching the establishment.

Another object is, to place near together those clerks whose duties will require them to have frequent communication with each other. If this rule be not observed, the clerks will lose much time in the course of the day in passing from one part of the office to the other; and the work will not be so expeditiously performed. It is especially desirable that the ledger keepers should be placed close behind the cashiers; so that if a doubtful cheque be presented for payment, the cashier may be able to show it to the ledger keeper, and be informed if he may pay it, without being observed by the party presenting it.

Another point is, to place the desk of the chief or head clerk in such a position that he can see all over the office. "A master's eye will do more work than both his hands." In this case, if the counter is crowded, the chief clerk will perceive it, and appoint additional clerks to assist the cashiers. If disputes take place between the clerks, or between the cashiers and the public, he will come forward and settle the matter before the dispute is carried

to high words. He will observe, too, the customers who come frequently to the counter, and from their transactions he will often draw conclusions respecting their circumstances, which will be serviceable to the bank. It is generally best that many of the clerks should be so placed as to look towards the counter. It has been said that this draws off their attention from their work; but we do not think this is generally the case, although it may occasionally relieve the irksomeness of their duties. A dishonest person standing at the counter, and watching an opportunity of committing a robbery when the cashier is engaged, will be more likely to abstain from making the attempt when the eyes of other clerks have a command of the counter. This arrangement will depend in some measure on the direction of the light. The clerks should not have their faces or their backs towards the window, but the light should fall on them sideways. These matters may appear trifling, but they will not be deemed unimportant to those who are entrusted with the practical administration of an office. It is only by attention to minute things that the business of an office can be well conducted.

II. The Selection and Appointment of Clerks.

When a bank is first formed, they sometimes advertise for clerks; but this is usually for clerks of a higher rank, who have had some experience in the business of banking. When a bank is established, it has seldom occasion for new clerks of this class. A vacancy in one of the higher departments is filled up by the next clerk in rank, and so on in order, and the new clerk comes in as a junior. Applications for this post are usually so numerous that the only difficulty is in making the selection. Those recommended by parties known to the bank, as customers or shareholders, usually have the first claim. In some

banks the nomination of the junior clerks is regarded as a portion of the patronage of the directors, upon the understanding, however, that they nominate none but such as are properly qualified, and who shall prove their fitness to the satisfaction of a committee of directors.

In making inquiries into the qualifications of applicants, it is necessary to ascertain, in the first place, their age. In London the age at which clerks are admitted into a bank is usually about nineteen. As their first duty is to collect payment of bills, it is necessary they should have arrived at a sufficient degree of strength to be able to make some resistance were an attempt to be made to rob them of their bill-case; and also that they should have arrived at an age to be conscious of the responsibility of their office. In the country parts of England, and in Scotland, clerks are taken at an earlier age; but the duties are different from those discharged by the same class in London.

Another consideration is the class of society from which clerks are taken. Candidates for the office of bank clerks are usually the sons of the better class of tradesmen, or of professional men, as clergymen, officers in the army or navy, or persons in the service of Government. During the last war, bankers' clerks were generally the sons of tradesmen, as the sons of gentlemen could easily find employment under Government. But now that places under the Government are not so easily obtained, members of what are called respectable families are found among the candidates for admission into the service of banks. Each class has some advantages. The sons of gentlemen have generally a better literary education, and have usually a more courteous address. On the other hand, they have no notion of business, and no business habits. They have been accustomed to go a-hunting and a-fishing with the sons of men of large property, and they look upon banking busi-

ness as a drudgery to which they submit from necessity, but which is much beneath the destiny to which they think they are entitled. On the other hand, the sons of tradesmen have been accustomed to notions of business from the ordinary conversation of their fathers' fireside; they know they must get their own living; they look upon their admission into a bank as a lucky event, and, consequently, apply themselves to their duties with heartiness and cordiality.

Another inquiry of those who are candidates for admission into a bank is, How they have been employed? Lads just come from school of course know nothing of the business of a bank, and, if taken at all, they should be taken upon trial for three or six months, so that their qualifications may be discovered before they are permanently appointed. Those who have been two or three years in a merchant's counting-house are generally found to be the most efficient. But to have been in the office of a stockbroker or a solicitor, or to have studied for one of the learned professions, is no recommendation. Clerks from country banks, and especially those from the banks of Scotland, when introduced into London banks, are at first usually considered to be slow.

It is also proper to inquire into the parentage of the candidate. For although honesty and dishonesty do not run in the blood, yet it is probable that religious and virtuous parents have given their children a religious and virtuous education; and a youth who has been accustomed to see examples of excellence at home, will be the most likely to exhibit those excellences in his own conduct. A high degree of moral principle is in itself a necessary qualification in a post of trust and responsibility, and it is usually associated with a cultivated and improved state of the intellectual faculties.—"If there be in the character

not only sense and soundness, but virtue of a high order, then, however little appearance there may be of talent, a certain portion of wisdom may be relied upon almost implicitly. For the correspondences of wisdom and goodness are manifold, and that they will accompany each other may be inferred, not only because men's wisdom makes them good, but also because their goodness makes them wise. Although, therefore, simple goodness does not imply every sort of wisdom, it unerringly implies some essential conditions of wisdom; it implies a negative on folly, and an exercised judgment, within such limits as Nature shall have prescribed to the capacity." [1]

Testimonials are to be received with caution. Young men who come to London in search of a place, often bring with them a host of testimonials, which they expect will place them at the head of any list of candidates. When upon other grounds there is an intention of engaging the applicant, these letters of recommendation may sometimes be read. It may be useful to observe by whom the testimonials are given, and whether those persons have had opportunities of judging of the adaptation of the party for the office he seeks. It may also be noticed what qualities are, and more particularly what qualities are *not*, ascribed to the applicant. It has been said that when a lady is praised for being "amiable and accomplished," it may be inferred that she is neither young nor handsome. So if a testimonial speaks highly of a young man's "industry and integrity," it may generally be inferred that he does not possess much talent. It is true that these qualities are of more importance than talent. But while they are more important, they are also more common. And if a young man possesses any kind of intellectual superiority, the fact will certainly not be omitted in his testimonial.

[1] Taylor's "Statesman."

III. The Proper Distribution of their Duties.

The distribution of the duties of the various clerks is a matter of no small importance. Experience is the only efficient guide in making such arrangements. We may, nevertheless, lay down a few general principles. The great division of the business of a bank office is into the cashiers' department and the accountants' department. In London banks there is a third—the tellers', or out-door department. In the distribution of duties, it is desirable that the accountants' department should be a check upon the other departments. The cashiers must not have the control of the books, nor the accountants the care of the cash. The accountants' books should show what amount of cash is in the hands of the cashiers; and it is the business of the cashiers to show that they have that amount of cash which corresponds with the accountants' books. If the same officer has the care of the cash and the command of the books, he may abstract a portion of the cash, and alter the books to make them correspond. It is further desirable, in large establishments, that two books which act as a check upon one another, should not be kept by the same clerk. While it is not proper to indulge a spirit of suspicion in regard to individuals, it is advisable that the duties of a bank office should be so distributed that the intromissions of any one clerk, either by the abstraction of cash or the falsification of the books, should be liable to immediate detection by the entries in some book kept by another clerk. For the same reason, it is proper that any document issued to the public (such as deposit receipts, drafts on London, &c.) should be signed by two officers, of whom one should belong to the cash, and the other to the accountants' department. There ought to be a complete division of labour in a bank. Every clerk should have fixed duties to perform, and every duty, how-

ever unimportant, should be assigned to some particular clerk. If anything is neglected, there should be no doubt as to who is to blame. No one should be able to say, "It was not my business; it was yours." Nor ought any duties to be assigned in common to two or three clerks, to be performed by them as each may find time. In this case each will do as little as he can, and nothing will be done well. If any dispute arises among the clerks as to the due division of their labours, a reference should be made to the chief clerk, who will give to each man his work, and hold him responsible for its proper performance.

IV. The Amount of their Salaries.

According to Adam Smith the wages of labour are regulated by the following circumstances:—1. The agreeableness or disagreeableness of the employments themselves. 2. The easiness and cheapness, or the difficulty and expense of learning them. 3. The constancy or inconstancy of employment in them. 4. The small or great trust which must be reposed in those who exercise them. 5. The probability or improbability of success in them.

Mr. Mill makes the following observations with regard to the salaries of clerks:—

"A clerk from whom nothing is required but the mechanical labour of copying, gains more than an equivalent for his mere exertion if he receives the wages of a bricklayer's labourer. His work is not a tenth part as hard, it is quite as easy to learn, and his condition is less precarious, a clerk's place being generally a place for life. The higher rate of his remuneration, therefore, must be partly ascribed to monopoly, the small degree of education required being not even yet so generally diffused as to call forth the natural number of competitors, and partly to the remaining influences of an ancient custom, which requires

that clerks should maintain the dress and appearance of a more highly paid class.

"It is usual to pay greatly beyond the market price of their labour all persons in whom the employer wishes to place peculiar trust, or from whom he requires something besides their mere services. For example, most persons who can afford it, pay to their domestic servants higher wages than would purchase in the market the labour of persons fully as competent to the work required. They do this, not from mere ostentation, but from reasonable motives—because they desire that those they employ should serve them cheerfully, and be anxious to remain in their service—because they do not like to drive a hard bargain with people whom they are in constant intercourse with—and because they dislike to have near their persons, and continually in their sight, people with the appearance and habits which are the usual accompaniments of a mean remuneration. Similar feelings operate in the minds of men in business with respect to their clerks." [1]

There would be considerable difficulty in applying the rules laid down by political economists with regard to the wages of labour to the case of bank clerks. A banker does not hire a clerk because he is the cheapest man he can get, nor does he dismiss him as soon as he can get another man to do the same work at a lower price. He would not find it his interest to do this; for his work is of a peculiar kind. His clerks must have a certain degree of education and of manner, and be taken from a certain class in society. They are not allowed to engage in any other employment. They have to maintain a respectable appearance. They must be qualified not merely for the lowest post in the bank, but must be prepared to take higher posts should

[1] "Principles of Political Economy," by John Stuart Mill, vol. i. pp. 461-475.

vacancies occur. And in every post they are entrusted with a large amount of property, and upon their integrity and prudence much reliance must at all times be placed. All these circumstances serve to show, that, in fixing the amount of their salaries, the banker should be anxious to err (if he errs at all) on the side of liberality.

He ought also to take into consideration the effect which the amount of salary produces on the mind and condition of the party receiving it. If an advance of salary quickens the attention or the zeal, or strengthens the fidelity of a party, or induces him to cultivate those talents which add to his efficiency—or if it enables him to move in a higher class of society, and gives him a station and an influence which enables him to be useful to the bank—then is such an advance of salary—though entered in the books under the item of expenditure—an outlay of capital which is repaid to the banker with interest in the effect it produces—an outlay that becomes probably one of the most profitable of his investments.[1]

[1] We have great pleasure in transcribing the following letter from Mr. Samuel Jones Loyd.* It was addressed to the chief clerk of his London bank. We abstain from all eulogium, as the letter will speak for itself:—

"DEAR MR. KIRBY,

"The enclosed draft for £1,000 I request you will place to the credit of the 'Clerks' Christmas Fund.' At the close of the first year since my accession to the head of this concern, I am desirous of offering to those through whose assistance I have been enabled to bring it to a satisfactory conclusion some substantial proof of my sense of their services, and of the interest which I feel in all that concerns their comfort and happiness. The year now closing has been marked by some circumstances of an accidental and temporary character, which have tended to throw an unusual degree of labour and trouble on the clerical department of the office. Of the readiness with which this difficulty has been

* Subsequently Lord Overstone.

In all banks the junior clerks have lower salaries than the senior clerks. In Scotland, a clerk usually serves an apprenticeship of three years, during which he receives but a small salary. This plan has been introduced into some of our country banks. In London it does not exist. In the private banks, a junior clerk usually commences with £60 a-year, and a portion of the Christmas money. In the joint-stock banks, where no Christmas money is allowed, the commencing salary is usually £80. But the rules of advance are various, and, indeed, must be so, depending as they do upon the prosperity of the banks, and other contingent circumstances. One bank may assign a certain fixed annual increase to each clerk, whether he advance in rank or not. In this case, his salary will be regulated entirely by the number of his years of service. Another bank may have a fixed salary for each post, and a clerk has no increase of salary except when he takes a step in rank. Another bank may adopt a scale of salaries combining the principles of the other two. For instance, every post in the bank may have a fixed minimum salary. But each clerk holding a post for a certain period (say for five years) has an annual advance for that period. Then he stops, and receives no further advance until he is promoted to the next post, where again he becomes entitled to the annual advances belonging to that post. We give no opinion as to the respective merit of these plans. But there is one principle we would enforce—that the salaries of the clerks should be regulated by the prosperity of the

met and overcome I am very sensible, and for this, as well as for the uniform zeal and integrity with which the general duties of the office are discharged, I beg that the clerks will accept my grateful acknowledgment, and that you and they will believe me to be the faithful friend of you all.

(Signed) "S. J. Loyd.

"*Lothbury, Dec. 24th*, 1845."

bank. If the bank is prosperous, the clerks ought to share in its prosperity; and if the bank is unfortunate, the clerks must consent to share in its ill fortune. But, under any circumstances, a scale of salaries is desirable. It prevents caprice on the part of the bank, and jealousy on the part of the clerks. The amount of salary in each case should be fixed by rule, and not by favour.

With reference to this subject we quote from Mr. Taylor's work, entitled "The Statesman"—a work which he states to have been the result of twelve years' official experience:—

"It is often said, that in order to get efficient service good pay must be offered. But this is not true, as applied to first appointments of young men. On the contrary, it will often happen that the largeness of the temptation, by bringing into activity the most powerful interests through which abuses of patronage are engendered, will lead to the appointment of a worse man than would have been obtained by a smaller offer. On the other hand, though men of promise are to be *had* cheap, whilst they are young and their value is little known to themselves or others, they cannot, when this is no longer their condition, be kept for a small consideration, or at least kept contented. But a reasonable degree of contentment is of essential importance where the understanding is the workman. There is no position so strong as that of a man who stands upon his head; and if he be not induced to the activity of just thinking and clear reasoning, he will hardly be coerced to it. Upon the whole, therefore, I would say, that what is most conducive to good appointments in the first instance, and thenceforward to deriving benefit from them, is to offer small remuneration to the beginner, with successive expectancies proportioned to the merits which he shall manifest, and of such increasing amount as shall

be calculated to keep easy, through the progressive wants of single and married life, the mind of a prudent man. Upon such a system, if unfit men belonging to influential families shall make good an entrance into the service, they will be more easily got rid of; since, finding that they have got but little in hand, and have but little more to look to, they will hardly be desirous to continue in a career in which they must expect to see their competitors shoot ahead of them."

V. *Their Sureties.*—In all banks the clerks give sureties for their integrity—usually two, of £500 each; and in some banks these amounts are increased on accession to higher offices. Of late years societies have been formed, both in England and Scotland, for the purpose of giving, on the part of clerks and others, the amount of security required.

The Lords of the Treasury, indeed, all Government Departments which require securities, and most of the great banking companies and private banks, accept the guarantee of these societies in preference to private suretyship.

In the year 1841 the Bank of England took measures for discontinuing the system of requiring sureties from the clerks. Every clerk subscribed annually two shillings per cent. upon the amount of his surety-bond. When he had subscribed in the course of five years (or immediately if he chose), ten shillings per cent., the liability of his sureties ceased. Every new clerk subscribes, when admitted, ten shillings per cent. on the amount of the bond he would otherwise give. These contributions are invested in the Three per Cent. Reduced, or Consols. This fund is fixed at £6,000 stock. When at this amount, the interest is given to the "Clerks' Widows' Fund," a fund

established by the clerks, with the assistance and support of the bank. When the claims have reduced the guarantee fund below £6,000 the interest goes to this fund until it has increased to this amount. If the claims reduce the fund so low as £4,700 then the clerks are required to make a further contribution until the fund is again raised to £6,000. But this contribution is never more than two shillings per cent. per annum on the amount of their respective bonds. Nor can any claim be brought against the fund greater than the amount of the bond that would have been required from the defaulter. The clerks still give their personal bonds, which are for the full amount of their deficiencies. This is an admirable plan for a large establishment. In adopting it the directors have shown a sound discretion, as it makes all the clerks interested in watching over one another. At the same time, they have manifested that kindness and goodwill which have, we believe, at all times distinguished the directors of the Bank of England in their conduct towards their clerks.

Mr. Thomson Hankey, when governor, delivered to the Banking Institute[1] the following account of the working of this system:—

"With regard to the guarantee system, it appeared to him that the principle adopted in the Bank of England in 1841, by his predecessor, was capable of extension, with great benefit to the clerks, to many of the other banking

[1] This Institute was established in 1851 on the initiative of the editor of the "Bankers' Magazine." It flourished for a few years, and then gradually expired. It is to be hoped that the present "Institute of Bankers," founded in London last year, under the presidency of Sir John Lubbock, will continue to receive the strong support with which it has hitherto been carried on, and continue the very useful work it has already accomplished. In Scotland a similar institute, absorbing the old Bankers' Literary Society, was established in 1875.

institutions of the country. The principle of that plan was, that a compulsory payment of £1 a-year for five years, or £5 in one sum, was required from each clerk, on entering the establishment. These payments accumulated until they amounted to a sum of £6,000, the interest of which was then to be applied to another purpose, for the benefit of the clerk; but in the meanwhile the fund was applicable to all losses at the bank, which, under ordinary circumstances, would fall upon the private sureties. Every clerk, on entering the establishment, was bound to give security to the amount of £1,000. Well, he believed the lowest premium the guarantee societies would take was 10*s.* per cent., or £5 for the £1,000, and this £5 premium had to be renewed every year. Now, the amount of this £5 premium from each of the 700 clerks of the Bank of England would be £3,500 a-year. Well, since the guarantee fund to which he had alluded had been established in 1841, the total defalcations in the Bank of England had only amounted to about £1,500. Now, if the 700 clerks had paid the £5 a-year each to the guarantee societies for the whole of that period, it would have raised nearly as much as £40,000, the whole of which would have gone into the pockets of the guarantee societies, with the exception of the £1,500 which would have been necessary to make good the defalcations. Now, if £40,000 had been paid in premiums, and £1,500 had been the loss, it would require very little argument from him to show that the guarantee societies would have been very great gainers, at the expense of the clerks."

VI. The System of Promotion.

It need hardly be observed that some posts in a bank are more important than others, and it is always desirable that the most clever men should occupy the most im-

portant posts. This object is desirable, but how is it to be attained?

The three main divisions of employment in a London bank are—the cashiers' department—the accountants' department—and the tellers', or out-door department. All the clerks enter in the first instance in the tellers' department, and their first duties comprise the collection of the payment of bills. The senior tellers are occupied within doors in various duties connected with the out-door operations. From this department, as vacancies occur, the clerks are promoted to higher posts in either the cashiers' or the accountants' department.[1]

The Cashiers' Department.—The cashiers of a bank stand at the counter, and attend to the public. These officers, in Scotland, are called tellers; but in Scotland their duties are less important, as tellers pay no cheques until they have been marked by the accountant, who is their superior officer. We should form a very inadequate idea of a cashier in a London bank if we considered him only as a mere counter of money. Quickness in counting money is indeed one very necessary qualification. But besides this he should have such a mental organization that he can recollect the general average of each customer's balance, so as to be able to pay their cheques without a too frequent reference to the ledger-keeper. He should also possess a quickness of eye in detecting forged signatures—a self-possession, so as to be cool and collected when the counter is thronged with people—a command of temper, so as not to be irritated by undeserved reproach—and not only a

[1] It is of course in large banks, where there is necessarily a great subdivision of labour, that these three departments exist in a separate form. In smaller banks, though the duties are the same, yet one clerk may, in one day, perform duties belonging to each of the three departments.

general courtesy of manner towards the public, but a peculiar urbanity towards the customers of the bank, with a readiness and an anxiety to promote their convenience in any matter on which they may require information or advice. In fact, it may justly be said, that there is no class of clerks on which the reputation of a bank with the public so much depends as on the cashiers. And hence, in London banks, those clerks who are deemed the quickest, the most able, and the most gentlemanly, are usually promoted to this office.

The *Accountants' Department* refers to the keeping of the books and the accounts. The main qualifications for the clerks in this department are—good handwriting, accuracy in figures, and method in the arrangement of their work. Slowness is no positive disqualification, provided it be associated, as it often is, with application and perseverance. An accountant is not compelled to do any given quantity of work within a given time. By a proper arrangement of his duties he can usually contrive to keep himself pretty equally employed during the whole of the day, and on busy occasions he can perform what remains in the evening, after the hours of public business. A steady perseverance is of the first importance. But we must distinguish between those qualities required in the clerks of the accountants' department, and those required in the accountant himself.

The chief accountant in a bank is not a mere book-keeper. It is one thing to keep a set of books previously prepared and arranged, and another to frame a set of books, or a new system of book-keeping, adapted for any operation that is proposed to be carried on. In the latter case, mental powers are required that are by no means common. And even where a system is established, the chief accountant of a bank will often have occasion to consider the best

way of passing certain transactions through the books—of framing abstracts of operations which the books may not immediately supply—of making difficult calculations, and of examining lengthy and complicated accounts, and exhibiting them with clearness and brevity. A good system of book-keeping, and a clear-headed accountant, would have prevented many a bank from stopping payment.

From this statement of the qualifications of cashiers and accountants, it will appear that most clerks will be more fitted for one office than the other, and it is desirable that each clerk should be placed in the department for which he is best adapted. Where there is no peculiar adaptation, and where there is no marked difference among the clerks, the promotion should go according to seniority—not seniority in regard to age, but seniority according to the time they have been in the bank. But it will often happen, not only in the first, but also in subsequent steps of advancement, that the clerk who is entitled to a vacant post by length of service, is not so well qualified for it as some of his juniors. But even in this case, the individual should not be passed over, if he can perform the duties with an average degree of efficiency. Should he, however, be wholly unqualified, or fall below mediocrity in his qualifications for the office, there should be no hesitation in promoting over him some other clerk better adapted for the office. As, however, all such cases will give rise to some suspicion of favouritism, and as the party who is passed over is sure to think himself unfairly treated, it is desirable that the clerk thus promoted should possess such a marked superiority over the other, that no doubt can exist of the justice and propriety of the arrangement.

VII. The Rules of Discipline.

As the discipline of the office must depend very much

upon the chief clerk, a description of his duties will describe many of the duties of the other clerks.

The office of chief clerk requires qualifications of no ordinary kind. It need hardly be said that he should possess a thorough knowledge of the business of the office. He ought also to possess certain moral qualifications, such as a command of temper, a love of order and regularity, a rigid adherence to discipline, accompanied by kindness of disposition and of manners towards his colleagues, a gentlemanly and courteous demeanour, and, above all, he will be expected to exemplify in his own conduct those precepts it may become his duty to inculcate upon others.

The following are the principal duties of a chief clerk :—

To see that the clerks come at proper time in the morning, are not absent unnecessarily during the day, and that they do not leave the bank at night until they have finished their work.—To see, by occasional inspection, that all the books of the office are kept in a proper manner, and where he finds this not to be the case, to give such instructions and admonitions as the circumstances may require.—To see that during the day the counter is properly appointed, and that no delay takes place in attending to the wants of the public. For this purpose it is desirable that his desk should be so placed as to command a view of the counter.—To see, by occasional inspection, that the customers' books are written up in a proper manner, and in case of complaint he will personally investigate the matter, and explain it to the customer.—To see, early in the morning, that the balance was correct on the preceding night, and when otherwise, he will himself attend on the second or third evening, and direct that proper means be employed to discover the difference.—To count, at such times as may be deemed proper, the money of the several cashiers, and when necessary to report thereon to the banker.—To

see that all the officers of the bank conduct themselves towards each other and the public in a courteous and gentlemanly manner, and to maintain throughout the office a proper state of discipline and subordination.—To take charge of the stationery and other matters used in the office, and to prevent any loss or waste of any portion of the property of the bank.

Besides the points of discipline hinted at in the above description, there are others that may require more particular notice, as

Punctuality of Attendance.—To insure punctuality of attendance in the morning, some banks adopt the practice of keeping a book, in which every clerk writes his name on his arrival, and when the time has expired, a line is drawn, which shows who has arrived in time, and who has arrived late.

Punctuality of attendance is an index of character. It may fairly be inferred that those who are the most punctual in the morning will be most attentive to their duties during the day, that they have formed the most regular habits, and are, consequently, the most deserving of promotion. Those, too, who are the most punctual are the most deserving of occasional holidays. They who are habitually late must be regarded as having chosen to take their holidays by piece-meal each day, and they can, therefore, have no claim to other holidays besides. In all applications for promotion or leave of absence, it is deserving of inquiry, whether the party is usually punctual in his attendance. With regard to absence from illness, it cannot be supposed for a moment that any clerk would pretend to be ill when he is not so, in order to have an excuse for absenting himself from the bank. An act of this kind would show such a want of personal honour as should be a disqualification for holding any office in a bank.

"Few things occasion more dissatisfaction and annoyance to the superiors in a bank than the absence of clerks on every slight attack of illness. Unless a clerk feels himself quite unable to perform his duties, it is very injudicious for him to absent himself. It interferes with his promotion, for his superiors will be reluctant to advance him to any post where his absence would be more inconvenient than while he is engaged in an inferior situation. In addition to this, the superior in the office may attribute the attack of 'bile' or 'indigestion' to the indulgence of a convivial taste, which it will be well for a clerk to avoid obtaining a character for. And, under any circumstances, a man who continues at his post as long as he is able, will stand much higher in the estimation of those with whom he is engaged than he who forsakes his duties on every trivial occasion." [1]

A clerk should take care of his own health. We think it is better for him to stand than to sit at his work. His desk should be raised to such a height that he can do this without stooping. He should at all times avoid pressing his chest against the edge of the desk, as that may produce serious complaints. The post most friendly to health is that of cashier. He is generally standing; his attention and mental faculties are in more constant activity, and he is obliged to talk, which is useful to the lungs. It may be doubted whether the exercise of the intellectual faculties, when not carried to excess nor attended with anxiety, is ever injurious to health. Those mental operations which are connected with the office of a bank clerk are in themselves beneficial. It is the confinement, the impure air, and the keeping of the body too long in one posture, that affects the health. Hence clerks should live at a distance from

[1] "The Banker's Clerk," p. 151, an excellent little work, published as one of the series in the Guide to Service, by Mr. Charles Knight.

the bank, and *walk* to and fro. If they reside at the bank, they should take exercise in the open air, either in the morning or the evening. When the weather is bad, they can walk up and down the room, with the windows open. Any kind of amusement that should throw the body into a variety of attitudes would be useful. Singing is friendly to health, if not carried to excess, nor practised in confined or crowded apartments. Boating, in moderation, is serviceable. Gardening is highly beneficial. A clerk who wishes to enjoy good health should never keep late hours, nor get into debt, nor gamble in the funds. He should also have a hobby, that is, some kind of fixed amusement to employ his time when absent from the bank, in order to change the current of his thoughts, and to counteract those evils that sometimes arise from monotony of occupation. If this hobby should be of a kind to be useful or instructive as well as recreative, all the better. The great disease against which he should guard is consumption. He will be more subject to this in youth than in more advanced age. And it has been remarked that healthy young men, fresh from the country, when appointed clerks, have become more susceptible of consumption than less robust persons who have been seasoned by a residence in London.

The Bank of England have a medical gentleman who attends at the bank one hour every day. He is employed by the directors upon matters connected with the health of their clerks. Every clerk, when appointed, is examined, to ascertain that he is in good health. If he applies for leave of absence on the ground of ill-health, he undergoes a medical examination. If absent from illness, he is visited by the bank surgeon, who reports to the directors upon the nature of his complaint, and its probable duration. If a clerk complains that his employment is injurious to his health, he is examined, and in some cases

his employment is changed. If he applies for a pension on account of age or illness, he is also examined. In each of these cases a formal medical report is drawn up, and laid before the directors. It is not the duty of the surgeon to prescribe for the clerks; but in the case of the porters or messengers, he acts as their medical attendant, and is paid by the bank.

It is worthy of inquiry, whether this excellent arrangement might not be extended, and adopted by other banking institutions. Why should not every large company give a fixed salary to a medical man to attend to the health of all their clerks? This would often be useful in preventing illness, or in checking its first approaches. It would thus preclude, in some cases, those inconveniences which are now felt through the absence of sick clerks; while it would be a boon to the establishment, and save them what, in some instances, must be a heavy item of expense.

Holidays.—It is desirable, on several accounts, that all the officers of a bank, and especially those who are entrusted with cash or other property, should once a year have leave of absence for at least a week or a fortnight. This should not even be optional—it ought to be a fixed rule with which they should be expected to comply. These absences should be arranged to take place at those seasons of the year when they will be of the least inconvenience to the business of the bank. These holidays ought to be readily granted on the ground of kindness and humanity; but where these feelings do not exist, motives of self-interest alone would prompt a ready acquiescence in such applications. In the first place, a great inconvenience is often experienced in large establishments from the illness of the clerks when they are denied proper seasons of relaxation. In this case, the loss of time from

ill-health is greater than that which would be occasioned by holidays. A sick clerk, even when he attends to his duties, is neither so quick, nor so correct, nor can he get through so much work, as a clerk who, by proper recreation, has been kept in perfect health. These occasional holidays tend very much to improve the efficiency of an office. When a clerk is absent, the next in seniority takes his place; and when all the clerks have been absent in turn, every duty in the bank becomes perfectly familiar to at least two persons, so that in the case of those absences which arise from unavoidable causes, little inconvenience comparatively is felt. But while the bank is thus rendered independent of any one individual, it must not be supposed that the absence of a clerk lessens the importance attached to his services. When a clerk is really efficient, an occasional absence renders his value more apparent, and increases the estimate formed of his character; while the indulgence he has received will stimulate his energies and increase his desire to render himself more than ever useful to his principals.

Another advantage to a banking establishment from the absence of their clerks is, that it furnishes an additional guarantee for their honesty. We have known instances of frauds being carried on for several years by clerks who were constant in their attendance, while a single day's absence would necessarily have led to a detection of their dishonesty. When a clerk takes his holidays, all the property under his care is given over into other hands; and the knowledge that he will be called upon to do this periodically, may deter him in the first instance from commencing a career which must be thus necessarily exposed.

Customers' Books.—It should be a great object with the chief clerk to see that the customers' books are written up

correctly and neatly, in a good handwriting, and free from blots or erasures. These are the only books that go out of the bank, and therefore they are the chief means by which the customers can judge as to the manner in which the business of the office is conducted. It is not advisable that the writing up of these books should be left to the junior clerks. They should be placed in the hands of clerks of some standing. The same book should always be written up by the same clerk; and when it can be so managed, the credit and debit side should both be in the same handwriting. One of the best writers in the office should be appointed to this post, and his salary should be proportionate to its importance.

It is the practice of all bankers to let the customers' book be a copy of the ledger with the sides reversed. Thus the credit side of the ledger is the debit side of the customers' book. The reason assigned for this is, that the ledger is the banker's account against his customer, and the book is the customer's account against the banker. Hence the customer, when he looks at his book, has at his left hand the sums with which he has debited his banker, and at his right the sums which are to the banker's credit.

Cashiers' Deficiencies.—It cannot be expected that a cashier can receive and pay away money for a whole year, and yet never make any mistakes. Some deficiencies will be sure to arise. Each cashier is considered liable to make good his own loss. But, to meet these deficiencies, some banks allow to each cashier a certain sum—say £20 or £30 per annum—which is called risk-money. Others pay such deficiencies as may arise during the year, giving an admonition to any cashier whose deficiencies are usually large. Superior accuracy in this respect is also considered as one test of superior merit, and therefore as forming one

claim to promotion. When a cashier takes his holidays, he delivers up his cash to the chief clerk, who counts it, and sees that it is correct, and then delivers it to the clerk who is to act for the cashier, who signs an acknowledgment in the money-book that he has received the right amount. The cashier, on his return, will make a similar entry. It is said to be the practice in some establishments for the chief clerk to count the cash of all the cashiers every Saturday night. But when, from the extent of the business, this cannot be done, he counts the cash of each cashier individually, at such times as may be most convenient to himself, giving the cashier no previous notice of his intention to do so. He immediately reports to the banker any deficiency he may discover. In all banks it is understood that the cashier is not allowed to apply any part of the bank money, even temporarily, to his private use, nor to lend any sum, however small, to the other clerks, upon their I O Us, or other engagement. Any violation of this rule, though with no fraudulent intention, is considered a sufficient ground for instant dismissal.

Gambling in the Funds, or in Shares.—Some banks make it a rule to dismiss any clerk that is found to be engaged in transactions of this kind. The evil effects of such practices are very great. Speculative engagements will necessarily distract their minds, and draw their attention from their official duties. If unfortunate, their personal comforts may be diminished: they may incur debts that will require years of saving to liquidate, or they may be tempted to actions which would ruin themselves and disgrace their families.

VIII. The Training of Clerks for higher Offices.

Whatever natural talents a young man may have when he enters a bank, he cannot be expected to perform his

duties well until he has been instructed. There is a good way and a bad way, a quick way and a slow way, of performing even the most simple operation. Incorrect or slovenly habits, when once acquired, are not easily abandoned. When, therefore, a young man enters a bank, he should be placed under the tuition of another clerk, well qualified to instruct him with regard to all his immediate duties. It is also desirable that the chief clerk should not have much manual labour, but should have leisure to walk round the office—stand for a while at the elbow of each clerk—observe his peculiar defects—and give such instructions as he may deem necessary or useful. The senior clerks, generally, should also be ready at all times cheerfully and courteously to give instruction to their juniors.

There are many ways of ascertaining the relative merits of a clerk. There is one obvious way; that is, to inspect the books which he keeps. It can readily be seen if they are kept in a good and neat hand—if there are any blots or erasures—and if they indicate any great degree of carelessness or otherwise. Quickness is generally an evidence of cleverness. A clerk who can count notes very fast, or who can cast up a long column of figures very quickly, and yet accurately, is generally a clever man. Quickness of hand denotes quickness of head, and it will generally be found that these two kinds of quickness go together. We do not say that this mechanical quickness of head proves soundness of judgment, but neither does it prove the reverse. In a clerk it is a decided recommendation.

Another test of the cleverness of a clerk is, the opinion formed of him by his fellow-clerks. When men associate together day after day for a number of years, both their excellences and their defects become known to each other, and each man falls into the position to which his qualities

entitle him. The opinion which any one clerk expresses of the relative merits of the other clerks will generally be correct, when his own interest is not concerned. The opinion he may express will, in fact, be the opinion of the office, formed not only on his own experience, but also on the experience of all the other clerks.

The report of the chief clerk will generally express this united opinion of the office. But it is well for a banker to keep himself well acquainted, at all times, with the sentiments generally entertained by the chief clerk respecting the other clerks, and not ask his opinion merely when there is an opening for promotion. On these occasions, feelings of kindness, or the reverse, may induce a chief clerk to speak of the party in a somewhat different tone from that which he would employ at ordinary times.

With a view to the proper training of clerks, it is desirable that there should not be too many in proportion to the work. If the clerks are unemployed for any considerable portion of the day, their habits of attention, of industry, and of quickness, are impaired, so that they do less work even in those hours in which they are occupied. The duties of each clerk should be sufficiently heavy to require a continuous application of the mind during the whole of the working hours. If a banker find that the clerks have time to read books or newspapers, or to carry on either gambols or quarrels among themselves, during the hours of business, he may safely infer that he has too many hands. By reducing the number he will make each clerk more efficient, and the work will be better done. He will also be able to increase their salaries individually. It is better that the same amount of money should be distributed among a smaller number of effective men than among a larger number who are less effective.

For the purpose of training the clerks, it is desirable

that their labours should be so subdivided as that the duties of one office should be a training for the office immediately above it. The clerk, on his entrance into the bank, will thus have to perform those operations that require the least degree of professional knowledge—of knowledge peculiar to the business of a bank—and will advance step by step (each step requiring but a small addition to his previous knowledge) to the higher posts. When it is ascertained for which department—the cashier's or the accountant's—the teller is best adapted, he should be put into that post, the operations of which will form the best training for those duties which, when promoted, he will have to discharge.

The occasional absences of the clerks are conducive to their improvement. The juniors thus learn to perform the duties of their superiors. New arrangements are formed temporarily for a different division of labour, and, the hands being fewer, an additional stimulus is given to exertion. It is also useful, when it can be done, for the clerks to change occasionally, and do each other's work. Every clerk should be encouraged to suggest any improvements for abridging or facilitating his own labour. When a bank has several branches, it is often advisable that an occasional absence at one branch should be supplied by a clerk brought from another branch. A good inspector of branches will inspect the cashier's and the accountant's department as well as the manager's; and when he finds any improvement at one branch, he will introduce it into all the other branches.

But the greatest stimulus to improvement in the clerks is an impartial system of promotion. It is, perhaps, desirable that instances should occur sometimes, of a clerk, who is entitled to a higher post from seniority, being passed over, in order to show that superior merit is re-

garded. But it should always be obvious that the clerk who is promoted has superior merit. If a clerk is put over the head of another from favouritism, or caprice, on the part of the banker—or from the influence of friends, customers, or shareholders—or even for qualities good in themselves, but not increasing his efficiency as a clerk—then will great evils arise from his appointment, even though he should be as well qualified as the man who was entitled to the post from seniority.

Another effectual means of training clerks is the daily balance.

The books are balanced every night, before the clerks leave the bank. But mistakes will necessarily occur during the day, and to discover these will occupy a little time. The total amount of error is called "the difference;" and to endeavour to discover the error is called "searching for the difference." Those clerks who are thus employed in the evening are said to be "upon the balance." In large establishments it is usual to divide the whole body of clerks into classes, who take it in turn to be "upon the balance." By this arrangement, all those who are not "upon the balance" can leave the bank as soon as their own work is done. The smaller the number of clerks on the balance, the better. Thus, in a bank of forty-two clerks, six would be sufficient to be on the balance. If a larger number—say twelve—were retained, the juniors would do nothing, or else they would be employed on the inferior books, from which they would learn nothing. But when only six are retained they must all work, and, what is better still, they must all think. They will all acquire a thorough knowledge of the whole system of book-keeping, and be able to ascertain in what way errors in one book may counteract errors in another book, and how the errors discovered will bear upon "the

difference." In large establishments, almost the only way in which a junior clerk can learn the whole system of book-keeping is from being "upon the balance." But this is an effectual one. It also gives him an opportunity of showing his talents. Some clerks are far more quick in discovering the difference than others are; and this quickness is generally a fair criterion of the general talent of the party. The clerk who "skulks" the balance avoids the best means of improvement, and the best opportunity of showing his talents. But such persons have usually no talents to show. A clerk who acts in this way betrays a consciousness of being a fool.

We have here spoken of that kind of training which is adapted to the making of clever clerks. But as in the joint-stock banks a clerk may become a manager, it is desirable that those clerks who are deemed the most clever should be put under a course of training that will, with experience, qualify them for that office. It is, in some respects, more difficult to do this in a large establishment than in a small one. In a bank that has forty clerks, one clerk sees only a fortieth part of its operations. In a bank where there are only ten clerks one clerk sees a tenth part, and may easily acquire a tolerable knowledge of the whole. A bank that has many branches has a great facility for training clerks to become managers. When a branch manager is absent from illness, or any other cause, one of the senior clerks of that or some other branch will take his place, and thus gradually become accustomed to the duties of the office.

The clerks thus selected for this kind of training should be young men who are quick and efficient in the discharge of all their official duties, and, moreover, possess a good temper, gentlemanly appearance and manners, a degree of literary information, with a desire of improving their

knowledge and their talents. They should not be young men who have entered the bank until they can get something better, but those who look to banking as their profession, and are ambitious of attaining to the highest posts in the establishment. But beyond the qualities we have enumerated, it is necessary, above all things, that they should have habits of business.

"'Habits of business' is a phrase which includes a variety of qualities—industry, arrangement, calculation, prudence, punctuality, and perseverance. And these virtues are exercised, not from the impulse of particular motives, but from habit. If you hear a man boast of being industrious, you may safely infer that he does not possess the habit of industry; for what a man does from habit, he does mechanically, without thinking of the merit of his actions, though they may be highly meritorious. Habits of business are essential to a merchant. But though essential to a merchant, they are not peculiar to him. They are as necessary to a professional man as to a merchant—as necessary to ladies as to gentlemen—as necessary for the government of a family as for the government of a commercial establishment. The greater the intellectual talents of the individual, the more necessary are habits of business to keep him steady in his course. The more canvas he spreads, the more ballast he requires. If we examine the history of those illustrious characters who have risen to eminence as the masters, the legislators, or the instructors of mankind, we shall find they have been as much distinguished by their habits of business as by the superiority of their intellect; while, on the other hand, we could easily point out, in every science and in every path of life, some young men who, though of towering genius, have become lost to themselves, and have disappointed the hopes of all their friends, through a want of habits of business.

They have burst upon the world with more than noontide splendour, they have attracted universal notice, they have excited big expectations, and suddenly they have darted into an oblique course, and passed into oblivion."[1]

If a clerk be intended to be trained for a manager, it may be questioned whether he will be improved by remaining a long time as a clerk. The two offices are very distinct, and they call into operation distinct qualities and operations of mind. A very old banker's clerk (unless he has been a chief clerk) is, generally, from the very length of his service, disqualified for being a manager. Seven to ten years' experience as a clerk is quite long enough, and after that period the sooner he becomes a manager the better, provided he has the necessary qualifications. Even during that time he should have been occasionally employed in those operations that require the exercise of his faculties as a man of business. It has often been said, that good servants make bad masters. If this be true, it is probably the result of an intellectual more than a moral deficiency. A lengthened service causes the mental faculties to move in a routine from which they cannot be suddenly aroused into an attitude of independence, so as to be able to trace causes and effects, to balance opposing considerations, and to engage in those reasoning processes which are required by the exercise of authority. Hence it is, that before a clerk is appointed a manager, he should undergo some kind of training. The best training for being a manager is that of being chief clerk, or of holding an equivalent post next to the manager. It will necessarily follow that the holder of such a post will have occasionally to take the place of the manager, and the manner in which he may then act will be a fair criterion by which to judge of his qualifications for that or a similar situation.

[1] "Lectures on Ancient Commerce," by J. W. Gilbart.

Among the means of training clerks for superior offices, we should give a high rank to the formation of a library of banking books, to which the whole of the establishment should at all times have access. The remarks we made in a letter addressed to the manager of a country bank, in the year 1846, and which was afterwards published in the "Banker's Magazine," are, we think, not inapplicable to this subject:—

"I wish you would advise your directors to celebrate their success by sending to each of their branches monthly a copy of the 'Banker's Magazine.' I am sure this would be a profitable investment of some portion of your surplus funds, and would yield an ample return in the results arising from the increased knowledge and skill of your managers. Here they will learn points of *law* and of *practice*, with which they were previously unacquainted, and be better prepared to deal with such cases when they occur in their own experience. It seems peculiarly necessary that managers of branches, who have not the opportunity of immediately consulting with any of the directors, should be supplied by the bank with the means of obtaining this kind of information. Losses are sometimes incurred by joint-stock banks through the want of knowledge of a little banking law on the part of their principal officers. The managers would not be the only gainers. The other officers of the branches would have the opportunity of self-improvement, and thus routine clerks might become intelligent bankers, and you would train in your own establishment a constant supply of able men to take the places, when necessary, of the existing managers. It is one of the excellences of our system, that the junior clerks may look forward to being placed at the head of the establishment; but this can only take place in those instances wherein the clerks endeavour to acquire that professional and

general knowledge which is necessary in the present day, in order to discharge the duties and maintain the position of a manager. Unless they do this, those who are now clerks will remain clerks as long as they live, and the next generation of managers will be taken from the more instructed classes of society."

The manager of a joint-stock bank in the midland counties informs us that his directors recently voted £100 towards the formation of a bank library. To the directors of other banks we would say, "Go and do likewise."[1]

In training clerks for intellectual offices, it is advisable not to give them too many instructions with regard to minute details. They should be taught to think for themselves. A man's talents are never brought out until he is thrown, to some extent, upon his own resources. If in every difficulty he has only to run to his principal, and then implicitly obey the directions he may receive, he will never acquire that aptitude of perception, and that promptness of decision, and that firmness of purpose, which are essentially necessary to those who hold important and responsible offices. Young men who are backward in this respect should be entrusted at first with some inferior matters, with permission to act according to their discretion. If they act rightly, they should be commended; if otherwise, they should not be censured, but instructed. A fear of incurring censure—a dread of responsibility—has a very depressing effect upon the exercise of the mental faculties. A certain degree of independent feeling is essential to the full development of the intellectual character. It should be the object of a banker to encourage this

[1] In the year 1850 a Literary Association was formed by the clerks of the Bank of England. The directors assigned three rooms within the Bank for a Library, a Reading-room, and a Lecture-room, and gave £500 towards the funds. Several of the directors individually presented also handsome donations of both money and books.

feeling in his superior officers. Those bankers who extend their commands to the minutest details of the office, exacting the most rigid obedience in matters the most trivial, harshly censuring their clerks when they do wrong, and never commending them when they do right, may themselves be very clever men, but they do not go the way to get clever assistants. At the same time, they exhaust their own physical and mental powers by attending to matters which could be managed equally well by men of inferior talent.

After a clerk has become a manager, his education has yet to be completed. Lord Bacon observes, that reading makes a wise man; writing an exact man; and conversation a ready man. Whatever knowledge he may have acquired by reading or otherwise—however exact he may have been in the discipline of the office—the young manager has yet to become a ready man. He has to apply his knowledge promptly and independently, and, at the same time, wisely. This habit he will acquire by time. The exercise of authority over other men produces an independence of mind which is friendly to the maturing of the understanding; while the necessity for giving immediate decisions in conversation with his customers will have a tendency to produce promptness of judgment. There is no profession in which experience is more useful than in banking. But it is useful, not so much in the amount of knowledge that is acquired (though that is important), as in the improvement it imparts to those intellectual faculties which are called into exercise. It is by constant practice that these faculties gather strength. Habits are formed by repeated acts, and they can be formed in no other way.

Before closing this section on the administration of the office, we may observe, that although the duties of a chief clerk are quite distinct from those of a banker, yet in small

establishments they are often performed by the same person. In branch banks, generally, the manager is both the banker and the chief clerk. But as the branch increases, the manager will gradually transfer to the second officer the duties of the chief clerk, and confine his own attention to those of a banker. It is too much the practice in England to view a bank manager as holding the same relative position in a joint-stock bank which a chief clerk does in a private bank. This is an error. A manager is not a banker's clerk—he is a banker. And although he may reserve some important cases for the consideration of his directors, yet they are usually such cases as a private banker would reserve for consultation with his partners, or on which, had he no partners, he would take time to form his own determination.

It may also be observed, that although the government of the office will generally be left entirely to the chief clerk, and it is not necessary that the banker should be made acquainted with all the trivial delinquencies of the clerks, yet there are certain acts of misconduct that must always be reported, and when reported must be dealt with by the banker himself. In a well-disciplined establishment these cases will be rare, but they will occur sometimes, and then the mode of reproof or punishment will be regulated by the kind of offence and the character of the party. Every act of dishonesty, however trifling the amount purloined, must be followed by instant dismissal. Acts of deliberate disobedience to orders, gross disrespect to superior officers, or acts of immorality that would bring discredit on the bank, will generally be visited with the same punishment. But extreme punishment should be inflicted only in extreme cases. Mere accidental errors, though they may sometimes occasion great loss, must not be treated in the same way as those faults which arise from gross neglect,

or which imply a deficiency in personal honour. It is generally a good rule that a banker should not reprove a clerk in the presence of the other clerks. By following this rule, he can adapt his reproofs to the character and position of the party; for a valuable clerk, even when really culpable, is not to be treated in precisely the same way as another whose services are of less importance. Nor is it any violation of justice, that those faults which arise from inadvertence should be viewed differently from those that arise from bad habits. Nor will it tend to impair the discipline of the office should it be known that a good character will sometimes get a young man out of a scrape, while he who had not that good character would be punished more severely for a less important offence. Another rule to be observed in administering reproof is,—in reminding a clerk of his defects, to commence with telling him of his *good* qualities. There is a credit as well as a debit side in every man's character; and it seems hardly fair to run over all the debit items, and say nothing of the other side of the account. This plan, too, increases, instead of diminishing, the pungency of the reproof, while it removes from the mind of the party any impression that the banker is influenced by motives of personal dislike.

SECTION XXVI.

BANKING BOOK-KEEPING.

"ALTHOUGH the business of keeping books is extremely easy when once the accounts are properly arranged, yet the adaptation of the principle of Double-entry to extensive and complicated transactions, so as to receive the full benefit of the system, is a process which requires the most complete knowledge, not only of the *practice*, but also of the *science* of book-keeping."

"Book-keeping, like all other arts, can only be mastered by industry, perseverance, and attention. The learner must think for himself, and endeavour to understand the *why* and *wherefore* of all that he does, instead of resting satisfied with vague notions and words devoid of sense."

"The study of book-keeping affords an excellent means of intellectual discipline; that is, when its principles are exhibited as well as their application. When the reasoning powers are called into exercise as well as the memory, the student who has carefully attended to the instructions, and who is the *master* and not the *slave* of rules, will experience no difficulty in unravelling or adjusting any set of accounts, however complicated or diversified." [1]

We have commenced this section with these quotations in order to quicken the attention of the reader to a subject which by those who do not understand it is considered complicated, and by those who do understand it is considered dull. It is, in fact, neither the one nor the other.

[1] "Double-Entry Elucidated," by B. F. Foster.

But still it is a subject on which it is difficult to write in such a way as to avoid the possibility of being misunderstood. We propose in this section—

I. To notice those Preliminary Operations with which a young Book-keeper should become acquainted.
II. To describe the system of Banking Book-keeping as published in the former editions of this work.
III. To state those Improvements of which this system has been found to be susceptible.
IV. To trace the Resemblance between Banking Book-keeping and Mercantile Book-keeping.

I. Preliminary Operations.

When a young man enters a bank as a clerk, he should be instructed to be careful with regard to his handwriting, or, in his anxiety to write fast, he may forget to write well. If he write a bad hand, he should not be above taking a few lessons from a professor of penmanship, who will teach him to write fast and well at the same time. But, however badly he may write, he should try to write plainly. Plainness is of more consequence than neatness or elegance. He should be very careful in writing the names of the customers of the bank. If he write them illegibly, there will be a loss of time in making them out, or they may be misunderstood, so that money may be posted to the wrong account, and thereby loss arise to the bank. On this account also, when two or more customers have the same surname, he should be very careful to write the Christian names fully and distinctly.

The necessity for writing quickly, and the want of carefulness at first, are the causes why so few bankers' clerks comparatively write a good hand. But they should remember, that this is a most important qualification, and a

deficiency in this respect may be an insuperable bar to promotion. Without this attainment a clerk cannot be put to write up the customers' books, nor to make out the country accounts, nor to write the letters, nor to fill the office of secretary. "You ought to be careful to write a plain hand. You impose upon your correspondents a very unnecessary and a very unpleasant tax if you require them to go over your letters two or three times in order to decipher your writing. A business hand is equally opposed to a very fine hand. A letter written in fine elegant writing, adorned with a variety of flourishes, will give your correspondent no very high opinion of you as a man of business." [1]

The plan of writing-masters who advertise to teach good and expeditious writing in a few lessons is as follows:— The pupil rests his hand upon the paper without touching it with his little finger. All the motion is then made from the wrist. Those who have to write their names many times in succession, such as in signing bank notes or in accepting bills, will find that on this plan they can get through their work in much less time than if they bend their fingers with every stroke of the pen.

The young clerk should also be taught to make his figures clear and plain, so that a 2 cannot be mistaken for a 3, nor a 3 for a 5. He should also take care that the tail of his 7 or his 9 does not run into the line below, and thus turn a 0 into a 6, and also that the top of his 4 does not reach so high as to turn a 0 in the line above it into a 9. He should be careful, too, in putting his figures under one another, so that the units shall be under the units, the tens under the tens, the hundreds under the hundreds, and the thousands under the thousands. Otherwise, when he adds

[1] "Lectures on the History and Principles of Ancient Commerce," by J. W. Gilbart.

up the columns together, he will be in danger of making a "wrong cast."

He will also learn to use both hands at the same time. In counting gold or silver coin, he will count with two hands instead of one, and thus do double the work. In *entering* a number of cheques or bills, while he holds the pen in one hand he will hold a cheque in the other, and then turn over the cheques as quickly as he enters them. He will always turn them over one on the back of the other, so that they will be in the same order after he has entered them as before, and when they are "called over" they will come in the same order in which they are entered.

He must also learn to "cast" quickly and accurately. The two main qualifications in this operation are accuracy and quickness. To insure accuracy a clerk will *cast* everything twice over. The first time he will begin at the bottom of the column, and the second time at the top. If he begin both times at the bottom of the column, the association of figures will be the same; and if he has fallen into an error the first time, he will be apt to fall into the same error the second time: but if he changes the order, the association of the figures will be different, and he will not be likely to fall into the same error. Quickness can be acquired only by practice. But he will accelerate his speed by making his figures plain, and placing them strictly in a line under one another. He should also learn to cast without speaking, for the eye and the head will go faster than the lips.

He must also be taught to "call over." When he first comes into the bank he will call this sum, £315 10*s.* 6*d.*, three *hundred and* fifteen *pounds* ten *shillings and* six *pence;* but he will soon learn that more than half these words may be suppressed, and he will say, three, fifteen, ten, six.

And so in the larger amount, £4,785 13*s.* 4*d.*, instead of saying, four *thousand* seven *hundred and* eighty-five *pounds* thirteen *shillings and* four *pence*, he will call, forty-seven, eighty-five, thirteen, four. By proceeding in this way, and speaking quickly and yet distinctly, a column of figures may be called over and checked in a very short space of time. He will, however, take care to avoid ambiguity. Thus, if the sum be £40 5*s.* 6*d.*, he will not say forty, five, six, as that would mean forty-five pounds six shillings; but he will say, in this case, forty *pounds*, five, and six. In cases where the pounds consist of five figures, the two first denoting the thousands are expressed separately; thus, £25,347 8*s.* 6*d.* is called over twenty-five, three, forty-seven, eight, six; and six figures, say £468,379 8*s.* 6*d.*, is called over, four sixty-eight, three seventy-nine, eight, six.

He will also be taught to *balance;* that is, to find the difference between two sums by *addition* instead of subtraction. Thus, if the two sums be £1,347 16*s.* 3*d.* and £4,834 19*s.* 8*d.*, he will be apt at first to put one under the other and subtract, in this way:—

	£4,834 19 8
	1,347 16 3
Difference . . .	£3,487 3 5

But he must be taught to proceed by a mental process, and will add the difference to the smaller number, thus:—

	£1,347 16 3	— 4,834 19 8
Difference . . .	3,487 3 5	
	£4,834 19 8	

He performs this operation by beginning with the pence, saying, or rather, *thinking*, "three and five make eight,"

and so on. And thus the two sides of an account are made to balance; that is, both sides are of the same amount.

The principle of balancing pervades the whole system of book-keeping. For example, we know that if to the amount of cash in the bank last night we add the amount received to-day, and deduct the amount paid to-day, the remainder will show the amount on hand to-night; and a novice would very naturally put it down in this form:—

	£
Cash on hand last night	100,000
Received to-day	60,000
	160,000
Paid to-day	80,000
Cash on hand to-night	80,000

But an accountant would arrange these four items in such a way as to form a balance, thus:—

	£		£
Cash paid away to-day .	80,000	Cash on hand last night	100,000
Cash on hand to-night .	80,000	Cash received to-day .	60,000
	£160,000	Balance . .	£160,000

In keeping the Progressive Ledger, the principle of balancing is of constant occurrence. The ledger-keeper brings out a new balance every time he turns to an account. But he never deducts—always adds. And if he posts several articles at the same time, the method is the same, thus:—

If the credit balance is				£1,214	3	7
And he posts the following sums						
to the *debit* of the account . .	£141	2	4			
	8	7	6			
	49	3	11			
	305	4	2			
				£710	5	8

he will add up these items, and mentally add a sum that will make the whole equal to £1,214 3*s.* 7*d.*, bringing out this sum as a new balance, and placing it under the former one as he goes on. Thus he will say, or rather think,—"4 and 6 are 10, and 11 are 21, and 2 are 23, and (here he must supply the figure) 8 are 31 = 7 and carry 2;" and he puts down the 8 in the pence division of the balance column; and goes on in the same way to the shillings, and afterwards to the pounds. When he has placed this sum, £710 5*s.* 8*d.*, he adds up the whole, including this sum, in order to check the operation, and to be sure that he is right.

He will then acquire a knowledge of the names and functions of the different books, and of the terms and phraseology used in book-keeping. The same book is sometimes called by different names in different banks, and different terms are employed to describe the same operations. But every clerk should use the language of the office in which he is placed. He should call every book by its proper name, and employ the phrases which are used by others. For instance, if the word "money" is used to denote coin, he must always use it in that sense; and not say "money" when he means bank notes.

It will be of great advantage to a sensible youngster, if one of the senior clerks should take the trouble to give him a general notion of the system of book-keeping, and show him the connection that exists between the books that he keeps and the other books of the office.

II. We shall now describe the system of Banking Book-keeping, as published in the former editions of this work.

Every person, on opening an account with a London banking-house, enters his name in a book called the Signature-Book, and this book is referred to whenever a

draft is presented having a doubtful signature. The person is supplied free of cost—stamps excepted—with a book of printed drafts and a cash-book, called in some houses a Pass-Book, in which is entered an account of his debits and credits, as often as he thinks proper to leave it for that purpose.

London bankers do not usually give receipts for money paid into their hands, but they enter the amount into the customer's book. A person paying money on account of a country bank, will sometimes require a receipt, and he may then be given a simple acknowledgment.

Before explaining the banking system of book-keeping, I will define a few terms which are often used in connection with the subject. By the word *bill* is always meant a bill of exchange not yet due. The word *cash* denotes the various items included in a credit or cash entry, and may denote *due* bills, cheques, bank notes, country notes, or coin. The terms *cheque* and *draft* are used synonymously, and denote an order on a banker, payable on demand. The word draft is never used in London to denote a bill of exchange, though this use of the term is very common in the country. Both bills and drafts are often called *articles*; and if they are cash, they are styled *cash articles*. An *addressed bill* is a bill made payable at a banking-house. A discounted bill is usually called a *discount*. By *money* is always meant coin. To *post* an article is to *place* or *enter* it in the ledger. One book is said to *mark against* another when the same entry is made in both books. One book is *checked by* another, when any error in one book would be detected by some operation in another. To *check* a book, or an account, is to examine it, and prove it correct, or make it so. To *cast*, or *cast up*, means to add together. The *balance* of an account is the difference between the credit and the debit side. An account is said to *balance* when the credit

and the debit side are of the same amount. To *balance* an account is to enter the balance, and to add up both sides, and then to bring down the balance as a new amount. The *credit* side of an account, or that on which the cash received is placed to the credit of a customer, is the right-hand side as you face the ledger; the *debit* side is the left-hand side. In London, the establishments of bankers are usually called *banking-houses*, not banks. A person who has an account at a banking-house is said to *keep a banker*.

I shall now describe the various books in the order of the different departments to which they belong.

I.—*The Cash Department.*

The principal books in this department are the following:—

1. Two Waste-Books.—One is called the Received-Waste-Book, and the other the Paid-Waste-Book. In the former is entered an account of all the cash *received*, and in the latter is entered an account of all the cheques and bills *paid*. The Received-Waste-Book is ruled with a double cash column on the right-hand side of the page. In making an entry into this book, you will proceed as follows:—First, enter the name of the party who lodges the money; then enter in the first cash column the particulars of which the credit consists, specifying each particular in the space at the left-hand. In receiving Bank of England notes, the number and date of each note must be mentioned; but if the notes are numerous, make them up in a parcel, and write on the outside the total amount, and the name of the party of whom they were received. Call this parcel "Sundries" in your entry. These parcels of sundries will be marked, and sent to the

Bank of England for other notes on the following day. Cheques on your own bank are to be entered by the name of the drawer and the amount. Country notes are to be entered by the name of the London banker at whose house they are made payable. These are distinguished from cheques upon bankers, by stating short the number and denomination of the notes—thus, $\frac{1}{10}$, $\frac{2}{5}$. All gold and silver are to be called money. After entering all the particulars of a credit, add them together, and carry out the amount into the farther cash column. At the close of the day add up this outer column, and see that the total agrees with the amount in the Day-Book.

If a customer brings his book with him when he lodges cash, the cashier enters the credit, and returns the book to him, unless it be left at the bank for the purpose of having the debit side also written up.

In receiving money for a deposit receipt, the entry is made in the same way as when the money is placed to a current account; but the words Deposit Receipt, or the letters D. R., are written against the name of the depositor.

In the Paid-Waste-Book is entered an account of all the bills and cheques paid by the bank. This book is ruled on each page with a cash column on the right hand, and another on the left hand, leaving a space between. When a cheque is paid, the amount is placed in the left-hand cash column—then the name of the drawer in the open space—and in the right-hand cash column are entered the particulars of the payment. Bank of England notes are entered by their number. It is not necessary to enter the date, as that can be found if necessary either in the Cash-Book of the preceding evening, or in the Received-Waste-Book, or the Lists of the same day. When a deposit receipt is paid, the same order is observed, but the letters

D. R. are added. All gold, silver, and copper are called money. At the close of the day, all the payments are added together, and should agree with the amount in the Day-Book.

Each cashier has a Received-Waste-Book, a Paid-Waste-Book, and a Money-Book.

2. Money-Book.—This is a small book ruled with a cash column on the right-hand side of each page, and it contains an account of all the coin, that is, the gold, silver, and copper in the bank. Each cashier will enter in his own Money-Book the money he receives and pays in the course of the day. On the left-hand page of the book he will copy from his Paid-Waste-Book the various sums of money he has paid, and on the right-hand page he will copy from his Received-Waste-Book the various sums of money he has received. In each case he will enter against the respective sums the totals in which they are included. Thus, if in paying a cheque of £175 2*s.* 6*d.*, he pay 5-2-6 money, he will enter it thus—"£175 2. 6. £5-2-6." The money is counted up at night, and must agree with the balance of the Money-Book; and this balance is then entered in the Cash-Book.

3. Cash-Book.—In this book is entered every night a specification of all the cash in the bank. The items will consist chiefly of Bank of England notes, parcels of sundries, country notes, cheques on other banks, and the balance of the money. The Bank of England notes are entered by their number, date, and amount. The parcels of Bank of England notes, called sundries, are entered by the word "Sundries," then the name of the parties of whom they were received, and the amounts; country notes by the name of the country bank, and the London agent at whose house they are made payable; cheques on other banks by the name of the drawer of the cheque, the name

of the banker, and the amount. In this book generally the cash articles are more fully described than in the Received-Waste-Book. In some banking-houses the Cash-Book is called the STOCK-BOOK, and in others the MAKE-UP-BOOK.

4. DAY-BOOK.—This book is ruled with a double cash column at the right-hand side of each page. The accountant enters in the Day-Book an account of all cash paid and received during the day, placing each transaction under the class of operations or accounts to which it belongs. On the left-hand page of the book he enters the cash which is paid, and on the right-hand side the cash which is received. He commences by writing the day of the week and of the month: then on the left-hand side he writes a heading, "CURRENT ACCOUNTS." Under this head he enters all the cheques paid, copying from the cheques the name of the drawer and the amount, which are placed in the first cash column. The sum of all the cheques is brought forward into the second cash column. The second heading is "DEPOSIT RECEIPTS;" under which head the individual receipts paid are entered, mentioning the number, the name of the depositor, and the sum; and bringing out the total amount, as before, into the second cash column.

The accountant may, if he please, make these headings in the morning, leaving such a space for the transactions under each head as his experience may show him to be necessary. Thus he may keep up his Day-Book throughout the day, and merely have to add it up and balance it when the bank closes. The other headings may be, "Bills Discounted this day," "Interest paid on Deposit Receipts," "Bank Premises," "Incidental Expenses," "Branch Accounts," &c., &c., answering to the accounts in the General Ledger.

On the right-hand page, or credit side of the Day-Book, the cash received is entered under corresponding headings, as "CURRENT ACCOUNTS," "DEPOSIT RECEIPTS," "BILLS DISCOUNTED PAID THIS DAY," &c., &c. The entries under the heads of Current Accounts, and Deposit Receipts, are copied from the Received-Waste-Books: the entry expresses only the name and the amount.

After all the entries have been made, add up the debit and the credit sides. To the credit side add the amount of the Cash-Book on the preceding evening; to the debit side add the amount of the Cash-Book on the same evening; and, if the totals agree, the "bank is right," that is, the transactions of the day have been correctly entered; but if not, then the bank is wrong, and the error must be discovered by "marking off" the various books.

In large establishments the Day-Book is divided into two books; the debit side forming one book, and the credit side the other book. One is called the "Paid-Day-Book," and the other the "Received-Day-Book." The advantage of this division is, that two persons can be employed at the Day-Book at the same time. In some banks the Day-Book has three cash columns, the third being used for transfer entries. These are entries in which no cash is actually paid or received by the bank, but an amount is transferred from one account to another. In other banks, all the transfers are passed through the Received-Waste-Book. By some London houses the Day-Book is called the Cash-Book, and its two divisions are called the "RECEIVED-CASH-BOOK," and the "PAID-CASH-BOOK."

5. CURRENT-ACCOUNT-LEDGER.—In this book every customer has a separate account. The sums received to his credit are posted from the credit side of the Day-Book, and the Ledger folio is placed in the Day-Book, in

a column ruled for that purpose. The debit side is posted from the cheques themselves, and the Ledger folio placed in the debit side of the Day-Book on the following morning, when the Day-Book is marked against the Ledger. The entry of a cheque in the Ledger includes the date of payment, the name of the party to whom it is payable, and the amount. The entry of a credit includes the date, the word "Cash," and the amount. When the cash is paid into the bank by a third party, it is usual to enter it in the Ledger as "Cash per A. B." When a credit arises from a bill lodged for collection having become due, the *name of the accepter* is substituted for the word cash.

Some banks follow what is called the *progressive* plan of keeping the Ledger. By this plan the balance is brought out every day, and thus we see the *progress* of the account. In the ordinary way, each page of the Ledger is divided into the debit and the credit side, and each side has ruled columns for the date, the transaction, and the amount. But in the progressive Ledger there is only one column for the date of both the credits and the debits—one space for a description of the transaction, whether credit or debit—and then three cash columns. The first column is the debit column; the second is the credit column; and the third is the column into which the daily balance is brought out. The advantage of this plan is, that you can see at once what sum a party has on his account, without the delay of adding up the debit and the credit columns. Most banks that allow interest on the balance of the current accounts keep their Ledger on the progressive plan; and, besides the columns I have mentioned, there are, on the right side of the balance column, a space for inserting the number of days the balance may remain stationary, and two interest columns—one for the interest of a credit balance, and the other for the interest of a balance over-

drawn. Most banks divide the Current-Account-Ledger into two or more parts, and the names of the depositors are placed in alphabetical order, from the beginning of the first Ledger to the end of the last.

6. Deposit-Receipt-Book.—Deposit Receipts are receipts granted for sums of money that are likely to remain a considerable time, and upon which interest is allowed. These receipts are distinguished from current accounts. Cheques cannot be drawn against any sum lodged as a deposit receipt; but when the amount, or any part thereof, is withdrawn, the receipt itself must be produced at the bank, and delivered up properly discharged. The Deposit-Receipt-Book is not kept *ledger-wise;* that is, each person has not a separate account opened for him in a distinct part of the book, but the receipts are entered chronologically, according to the date of the lodgment. The entry includes date of lodgment, name of depositor, profession, residence, amount, interest paid, principal and interest. The last two particulars are of course not entered until the receipt is cancelled. If a party is desirous of withdrawing only a part of the lodgment, the whole receipt is entered as paid, and a new receipt made out for the sum which remains.

II.—*The Bill Department.*

Bills are divided into two classes—bills deposited, and bills discounted. Bills deposited are bills lodged in the bank for collection, to be placed, when due, to the credit of the depositors. Bills discounted are those for which the money has been advanced, and which are, therefore, the property of the bank. These two classes of bills are entered in separate sets of books; but, as the books are kept in nearly the same manner, I shall describe them together.

1. BILL-REGISTER. } These books are kept, as the
DISCOUNT-REGISTER. } word register seems to imply, chronologically—the bills being entered immediately after each other, in the order in which they come into the bank. The entry includes date when deposited or discounted, name of ingiver, drawer, accepter, date, term, when due, amount, daily amount. The bills are numbered, and the register-number placed upon each bill. The daily amount of the Discount-Register is entered in the debit side of the Day-Book, under the head, "Bills Discounted this day." I advise that the headings of the columns of this and of all the other books, be printed. This saves time and prevents mistakes.

2. BILL-LEDGER. } In these books a separate ac-
DISCOUNT-LEDGER. } count is opened for each party; and the same bills which have previously been entered in the Registers are entered in these Ledgers; but the entry is much shorter. A full description of a bill is given in the Register only, and the register-number is placed as a reference in every book in which the bill may subsequently be entered. The entry in the Bill, or Discount-Ledger, includes date when deposited or discounted, name of accepter, when due, and amount. In some banks the Discount-Ledger is kept upon the progressive plan, which is very useful, as it shows at once to what amount any party may be under discount. In addition to this, some banks place in the Discount-Ledger an account of all bills they may have discounted, to which the party is an accepter. These bills are distinguished from those which have been discounted for the party himself, by being placed on the left-hand side of the page. This account is also kept on the progressive plan. A Discount-Ledger, kept in this way, will have three cash columns ruled on each side of the page: the three on the left hand will be headed,

"Where Accepter;" and the three on the right hand will be headed, "Where last Indorser." Between the two sets of columns will be entered—date when discounted—register-number—name of accepter or drawer—when due. The advantage of this plan is, that on turning to any party's account, you see at once the whole of his engagements to the bank, whether arising from bills that have been discounted for himself, or bills to which he is only the accepter.

3. BILL-JOURNAL. } In these Journals the bills
DISCOUNT-JOURNAL. } are entered under the respective days on which they fall due. For this purpose the day of the week, and of the month, is placed at the top of each page. This book may be made to last exactly a year, by having headings for every day, from the 1st of January to the 31st of December, omitting Sundays. The entry includes the register-number, name of depositor, or for whom it was discounted, accepter, and amount. The Discount-Journal has three cash columns; one for the amount of each bill, another for the bills paid, and another for those unpaid. The entry is made in the first column, on the day the bill is discounted, and in the other two on the day the bills fall due. The total amount of bills paid each day is copied from the Journal into the received side of the Day-Book. Those unpaid are entered into the transfer column of the Day-Book, and in the Past-Due-Bill-Book. The Bill-Journal need only have one cash column, as most banks find it more convenient to credit their customers' accounts with all the bills on the day they fall due, and debit them on the following day for those that remain unpaid. Those banks, however, that prefer it, may have separate columns in the Bill-Journal for the paid and the unpaid bills; and, in that case, the unpaid bills are returned on the following day to the depositor, without being

passed through his cash account. This is sometimes called being "entered short." Some banks make one book serve the purpose of both a Bill-Journal and a Discount-Journal; one page of the book being used as a Discount-Journal, and the opposite page being used as a Bill-Journal.

4. The Lists.—Each banking-house divides London into a certain number of districts, according to the extent of its business. Each district is called a Walk, and usually takes its name from the direction in which it lies; as the East Walk, the West Walk, and so on. To each walk is assigned a book, in which is entered every day a *list* of the bills due in the walk, and hence the book is called a List. Each List takes its name from the walk to which it belongs, as the East List, the West List, &c. The page is divided into four columns, the first and third of which are cash columns. In the first column is entered the amount of the bill, in the second, the name of the accepter and the register-number. This is done the day before the bills are due. After the teller has returned from presenting these bills for payment in his walk, he "answers" each bill; that is, he places against it an account of the cash he has received for it, whether cheques, bank notes, or money. The amount is entered in the third column, and in the fourth the description of each kind of cash. If the bill be not paid, he writes L. D. for "left direction," and then enters the bill in the "Unpaid-List."

In the Unpaid-List are entered all the bills not paid when presented for payment. In the course of that day or the following these bills are "answered," either by being paid, or by being passed to the debit of a customer's account, or by being transferred to the Past-Due-Bill-Book. In some banks the Unpaid-List is called the "Take-up-Book."

Cheques upon other banks are entered in the Lists in

the same way as bills, unless the bank sends a clerk to the Clearing-house, and then they are entered in the "Clearing-out-Book."

From this description it will be seen, that when a sum is received to the credit of a current account, it is entered in the Received-Waste-Book, copied from thence into the Day-Book, and from thence into the Current-Account-Ledger. When a cheque is paid to the debit of a current account it is entered from the cheque itself into the Paid-Waste-Book, the Day-Book, and the Current-Account-Ledger.

When a sum is received for a deposit receipt, the sum is entered before the receipt is granted in the Deposit-Receipt-Book, and afterwards in the Received-Waste-Book and Day-Book. When a deposit receipt is paid, it must be discharged in the Deposit-Receipt-Book, then entered in the Paid Waste-Book, and afterwards in the Day-Book.

When a bill is discounted, the discount is calculated by the accountant, who at the same time observes if it is drawn on a proper stamp, and is in every respect a regular and negotiable instrument. If the party for whom it is discounted have a current account, the full amount of the bill is placed to his credit, and he is debited for the interest. If he have no account, he is paid the amount minus the discount, and the entry is made in the Paid-Waste-Book. The bills discounted each day are entered individually in the Discount-Register, and the total amount copied into the Day-Book. The bills are also entered individually in the respective accounts in the Discount-Ledger, and under the days they fall due in the Discount-Journal. When these bills are due, the amount paid each day is entered in the Day-Book in the cash column, and the amount unpaid is transferred to the Past-Due-Bill account, and is entered in the Day-Book in the transfer column.

When a bill is deposited, it is entered in the Bill-Register, the Bill-Ledger, and the Journal. When due, it is placed to the credit of the party by whom it was lodged, and is copied from the Journal into the Day-Book, thence into the Current-Account-Ledger. If unpaid, the account is debited on the following day, and the bill is returned to the depositor.

At the commencement of each day, all the entries made the preceding day in the Day-Book, are marked against the respective books by the accountant, or under his superintendence. He also marks the Cash-Book, and checks the adding-up. The Customer's Books are then compared with the Current-Account-Ledger. The debit side of these books is usually written up the preceding evening from the vouchers by the tellers, or out-door clerks. The accountant writes up the credit side, and sees that both sides agree with the Current-Account-Ledger.

III.—*The Country Department.*

In this department is managed the business of the country banks, and of those customers who live in the country. When the letters are delivered in the morning by the postman, one clerk takes them, and enters in the Waste-Book the *cash* enclosed in the letter to the credit of the respective parties. Another clerk takes the letters and enters the *bills* in the Country-Bill-Register, the Bill-Ledger, and the Bill-Journal. The letters are then handed to a third clerk, who copies off into a book all the *payments*, which are to be made immediately in cash. This book is usually called the Draft-book, as the party receiving the money signs a draft for the amount, which is as good as signing a receipt. If the payment is to be made to a banker, he receives notice in a printed form called a memoran-

dum; but if the payment is ordered to be made to a private individual, he must call for it and claim the exact amount.

A fourth clerk now takes the letters, and enters all the *advices* (that is, bills *advised* to be paid when due) in the Advice-Book and in the Advice-Journal. The corresponding clerk who answers the letters usually manages the stock department. Hence he observes the orders to purchase or sell stock, to procure powers of attorney, and other business of that kind. When writing a reply to the letters received, he notices if all the items in the letters are marked by the proper clerks. If anything is wrong he is informed of it. Bankers' letters are usually short and plain, comprising only two or three lines.

Those London bankers who act as agents to banks, or to other parties in the country, will have occasion for the following books. The first seven are kept in the same manner as the corresponding books in the Town Department. All the entries in the Country-Ledger, as well as those in the Town-Ledger, must first pass through the Waste and Day-Books. The *credit* side of the Ledger is posted from the Bill-Journal and the Day-Book. The *debit* side is posted from the vouchers themselves, and, like the debit side of the Town-Ledger, will mark against the Paid-Day-Book and the "Clearing-in-Book."

1. A Country-Ledger.
2. Country-Bill-Register.
3. Country-Discount-Register.
4. Country-Bill-Ledger.
5. Country-Discount-Ledger.
6. Country-Bill-Journal.
7. Country-Discount-Journal.
8. Advice-Book.—In this book is entered an account of bills *advised* to be paid on account of the Country Banks.

This book is kept ledger-wise, each bank having a separate account.

9. Advice-Journal.—This book is similar to the Bill-Journal, and it contains the *advices* under the heading of the days on which they are to be paid.

10. Credit-Book.—This book contains an account of the credit granted by a country bank in favour of any party. Each party has an account open for him in this book, and the amount of his credit is placed to this account. He is debited for such cheques as he may draw, and the cheques are then passed to the debit of the country bank in the Country-Ledger.

11. Acceptance-Book.—In this book are entered those bills which have been received from the country, and which require the acceptance of the party on whom they are drawn. The entry includes the date when taken out, the name and residence of the drawee, the register-number, and the amount. There are also two vacant columns, in one of which the clerk who takes the bill for acceptance enters his initials when he brings it back; in the second column are entered the initials of another clerk to whom the bills when "brought in from acceptance" are delivered. Though this book is connected with the country department, it is usually kept in the town office.

12. Stock-Book.—London bankers have usually powers of attorney from their correspondents in the country, authorizing them to receive dividends on the Government funds. All these are entered in a book called the Stock-Book. The book is divided into several parts for the different kinds of stock, as 3 per cent. Consols, 3 per cent. Reduced, &c., &c. In each division are entered the powers of attorney held by the bank. The entry includes date of the powers, names of the attorneys, names of the holders of the stock, and the amount. These entries should be

made a tolerable distance apart from each other, to leave room to notice any alteration that may take place in the amount of the stock either by sales or new purchases.

Every country bank keeps an account with a London bank. The country banker receives from London a weekly statement of his cash accounts, and a monthly account current. The cash account is a copy of the London banker's ledger. But as the London banker does not consider as cash anything which may not be immediately turned into Bank of England notes, the cash account does not exhibit a statement of the *undue* bills which the country banker may have remitted, nor of the bills which he may have advised to be paid. By means of a monthly account current he has a full view of all these transactions. On the credit side of the account current is entered the total amount of each remittance, whether it consists of bills or cash. These are followed by entries of "extra" sums of cash that have been lodged to the credit of the country bank by parties resident in London. On the debit side of the account current is placed the total amount of the "advices;" that is, of bills advised to be paid, and also any "extra" payments of "drafts" to persons in London. Then the account is balanced, and we have an easy check by which any error that may have crept into either the cash account or the account current is detected. For if both accounts be correct, the amount of advices not yet due, added to the balance of the account current, will be equal to the amount of bills not due, added to the balance of the cash account.

IV.—*The Note Department.*

Those banks that issue notes will have occasion for:—
A NOTE-REGISTER, in which the denomination, number,

and date of the notes will be entered when prepared for circulation. The total amount of notes, as soon as they are received from the stamp office, or at least as soon as they are signed by the banker or manager, are entered to the credit of "note account," and are afterwards taken down daily as part of the "cash" in the possession of the bank. If the notes on hand be deducted from the balance of the note account, the remainder will show the amount of notes in circulation. Another way is to open an account for "Notes in Circulation," and to credit this account for the notes on hand every morning, and debit it for the notes on hand every night: the balance will show the amount of notes in circulation. There should also be a book for the "Register of Cancelled Notes," in order to keep an account of those notes which, having become unfit for further use, have been cancelled and destroyed. The notes when cancelled are placed to the debit of the "Note Account."

V.—*The Branch Department.*

In those banks that have branches, the head-office keeps an account with each branch, in the same way as a London banker keeps an account with a country bank. There is usually an additional "Bill-Register" for the bills payable at branches. Each branch has also two Bill-Registers, for bills payable at the head-office, and the bills payable at branches, and frequently another for the bills sent for collection to agents, where the branch does not remit all its bills to the head-office, but direct to agents in other places in order to be collected. Every country banker has also similar Bill-Registers for "Bills payable in London," "Bills payable at Bristol, Manchester," &c., as the case may be; and of course corresponding accounts must be opened in the General-Ledger.

There must also be a book for entering "Branch Notes paid." These notes may either be placed to the debit of the branch on the day they are paid, or they may be carried daily or weekly to the debit of an account to be called "Branch Note Account," and may be placed to the debit of the branch on the day they are sent home.

VI.—*The General-Ledger.*

Into this Ledger, under the various accounts, will be entered the totals of the corresponding headings or accounts specified in the Day-Book. The accounts in this Ledger denote the various classes of operations, and the balances show at all times the exact state of the bank. Every Saturday night the totals and balances of these accounts should be taken off on a balance-sheet. When all the debits are added together, and all the credits are added together, the two sides will agree; that is, they will be of the same amount. These balance-sheets may be printed and bound together in a book, to be called "the General-Balance-Book." I cannot better explain the General-Ledger than by giving the form of the weekly balance-sheet, with the names of those accounts which most banks have occasion to introduce. I have distributed these accounts into five classes:—1. Lodgments. 2. Investments. 3. Expenditure. 4. Cash Account, with Branches; and 5. Proprietors' Accounts. Each bank, however, will open such accounts as are adapted to its transactions. Whatever books the business may render necessary will require to have corresponding accounts. The General-Ledger contains the summaries of all the other books. Thus, the account called "Current-Accounts" contains the summary of the Current-Account-Ledger. The account called "Deposit Receipts" is a summary of the Deposit-

Receipt-Book. The account called "Bills discounted" is a summary of the Discount-Register and the Discount Journal. In this way every book in the office has a corresponding summary in the General Ledger. Hence, this book is a check upon all the other books; and by means of these summaries, the partners or directors of a bank can see at once the actual state of their affairs, and can trace the progress or decline of different branches of their business.

Every branch of a Joint-Stock Bank has a "General-Balance-Book," and sends to the head-office every week a balance-sheet of its affairs as they stood on the previous Saturday night. At the head-office these various balance-sheets are consolidated, and form a general statement of the affairs of the whole bank. This statement comprises the balance of the General-Ledger at the head-office, and that of each branch. These statements are printed and bound together beforehand, so as to form a book—it is called the Statement-Book, and is laid before the directors at their weekly meetings. The balances of the General-Ledger are given in the form on page 68, and those of the Statement-Book in the form at page 78.

It will be observed that the accounts introduced into the balance-sheet on page 68 are such as would be necessary to a London bank that had country agencies and branches, and issued notes. No such bank exists. But I have introduced all these accounts, that each bank may take those which are adapted to its transactions. It will also be observed that I have kept the country business distinct from the town business, so that the comparative extent of each may be immediately perceived. I have introduced cash columns for the AMOUNT as well as the BALANCES; for although the balances are sufficient to show the actual state of the bank, yet the amounts are necessary to show

THE _____ BANKING COMPANY.

Amounts and Balances of the GENERAL-LEDGER *on* _____

Amounts. Dr.	Balances. Dr.	Titles of Accounts.	Ledger Folio.	Balances. Cr.	Amounts. Cr.
		I. LODGMENTS.			
		London Current Accounts.			
		Country ditto.			
		Deposit Receipts.			
		Bills Deposited (in London).			
		Ditto (from the Country).			
		Notes in Circulation.			
		Credits on Agents.			
		II. INVESTMENTS.			
		Bills Discounted (in London).			
		Ditto (from the Country).			
		Past-Due Bills.			
		Government Stock.			
		East India Bonds.			
		Exchequer Bills.			
		Loans to Customers.			
		Ditto to Brokers.			
		Interest Account.			
		III. EXPENDITURE.			
		Bank Premises.			
		Rent.			
		Taxes.			
		Salaries.			
		Stationery.			
		Incidental Expenses.			
		Law Expenses.			
		IV. CASH ACCOUNT WITH BRANCHES.			
		Branch A.			
		Branch B.			
		Branch C.			
		Branch D.			
		V. PROPRIETORS' ACCOUNTS.			
		Paid-up Capital.			
		Preliminary Expenses.			
		Dividend Account.			
		Unclaimed Dividends.			
		Surplus Fund.			
		Profit and Loss.			
		Fund for Bad Debts.			
		General Account of Cash.			

the business that has been done since the previous half-yearly balance.

1. The first class of accounts, under the head of LODGMENTS, are all credit accounts; that is, the balance is on the credit side.

CURRENT ACCOUNTS are those which are usually kept by the London bankers, and are called by the Bank of England "Drawing Accounts." DEPOSIT RECEIPTS are more permanent lodgments, upon which the joint-stock banks allow interest. The account "BILLS DEPOSITED," not being a cash account, might be omitted without deranging the balance of the General-Ledger. If introduced, its balance must be placed on both sides the balance-sheet, or the totals will not agree. The General-Ledger is no check upon the accuracy of this account. It should, therefore, be checked periodically, by taking off the daily amounts current from the Journal, and comparing the total with the balance of "Bills Deposited in the General-Ledger."

Some banks distribute their bills deposited into several accounts, as "Bills Deposited by Agents," "Bills Deposited by Branches," "Bills Deposited by Private Parties," &c. &c. On the debit side of the General-Ledger these "bills deposited" are mixed with the bills discounted in different accounts, according to the places where the bills are payable, as "London Bills," "Manchester Bills," "Branch Bills," &c. Those deposited bills that are payable in the place where the bank is established, are usually distinguished from the discounted bills; one account being called "Local Bills Discounted," and the other "Local Bills Deposited."

NOTES IN CIRCULATION.—When the notes are made payable at any other place beside the place of issue, this account will only show the "apparent circulation," as the notes that have been paid by the agents, or at the other

branches of the bank, cannot be brought into the account until they have been returned for reissue. I have classed this account under the head of Lodgments, because it denotes a portion of the debt due from the bank to the public.

Credits on Agents.—When a bank grants a Bill, or Letter of Credit, upon their agents, the money received is placed to the credit of this account. When the bill is due, or the credit paid, it is placed to the debit of this account, and to the credit of the agent's cash account. The business of some banks requires a sub-division of their credits, as "Credits on London Agents," "Credits on Bristol Agents," &c. Some banks have also an account for "Credits on Branches;" but where all the credits granted are payable on demand, they are usually placed at once to the credit of the cash account of the branch on which they are drawn.

2. Investments.—The accounts belonging to this class are all debit accounts; that is, the balance (if any) is always on the debit side.

In the foregoing balance-sheet it is presumed that all the bills are payable in London, as the London bankers do not usually discount bills payable elsewhere. The division into two accounts is merely to show the comparative extent of the town and the country business. The first account includes the bills discounted for parties resident in London, and the second includes the bills discounted for parties resident in the country. Where the bills are payable at different places, they are referred, as I have already intimated, to different accounts, as "London Bills," "Manchester Bills," &c. It is not usual, in these cases, to distinguish between the bills discounted and the bills deposited, but to place them together on the same account; for instance, the account "London Bills" would include all bills payable in London, whether discounted or

deposited. If thought proper, however, they may be easily divided into separate accounts, as "London Bills Discounted," and "London Bills Deposited."

Past-due-Bills.—When a discounted bill is not paid, it is transferred to the debit of this account. "Bills deposited" never pass into this account, but if unpaid, are returned to the parties by whom they were deposited.

When the bank purchases "Government Stock," "Exchequer Bills," "India Bonds," &c., the purchase money is passed to the debit of an account raised for the purpose. Upon re-sale the account is credited for the money received, and the difference between the money invested and the money received is passed, at the end of the year, to the debit or the credit of profit and loss account.

Loans.—This account is debited for the amount of any loan granted to a customer, or to any other party, on security. When a customer wants a temporary advance, the usual way, in London banks, is, not to let him overdraw his account, but to place to his credit the sum he may require, and debit the loan account. The interest is charged upon the full amount of the loan. When the loan is repaid, this account is credited.

3. Expenditure.—The accounts under this head require little explanation. "Bank Premises" is debited for the expense of altering, painting, &c., the buildings and offices connected with the bank. The other accounts are debited for the different classes of expenditure as they occur. At the end of the year these accounts are credited, and the several amounts are placed to the debit of profit and loss account.

4. Cash Account with Branches.—The title of this class of accounts is sufficiently explanatory. I will only observe, that in some banks each branch keeps a distinct cash account with every other branch, and with the

several agents of the bank with whom it may have transactions. But, in other banks, each branch passes all its transactions through its cash account with the head-office. It debits the head-office for whatever it may remit to either a branch or an agent, and it credits the head-office for whatever sums it may receive from a branch or an agent.

5. Proprietors' Accounts.—This class of accounts refers to the internal operations of the bank.

Paid-up Capital.—If the capital has been paid up at different times, this account may be divided into "First Instalment," "Second Instalment," "Third Instalment," &c.

Preliminary Expenses.—Several joint-stock banks have passed to an account of this sort the expense of forming the company; and these expenses are discharged out of the profits, by equal portions, in the course of five or ten years. This is considered a more equitable mode than to pay these expenses out of the profits of the first two or three years.

Surplus Fund.—When the whole of the annual profits are not divided among the partners or proprietors, the surplus is transferred to an account called "Surplus Fund," where it remains for the purpose of being applied to meet any losses or contingencies that may occur in after years.

Profit and Loss.—To the credit of this account is placed all interest and commission received; and to the debit is placed all interest paid. These entries are made at the time the transactions occur. At the end of the year this account is credited for all the profits that have been made during the year upon Government Stock, Exchequer Bills, &c., and is debited with the several items of expenditure. The Profit and Loss Account may be subdivided

into several accounts, as "Interest Received on Bills Discounted," "Commission Received," "Interest Paid on Deposit Receipts," "Charge for Agency," &c., &c. When it is not thus divided, a complete abstract of the account should be made out at the end of the year.

General Account of Cash.—The introduction of this account makes the General-Ledger a perfect check upon the other books. For by this means the total of all the balances of the debit side of the General-Ledger are equal to the total of all the balances of the credit side. To the *debit* of this account is passed, every day, the total amount of the *credit* side of the Day-Book; and the account is *credited* for the amount of the *debit* side of the Day-Book; consequently the balance of this account will be always on the debit side, and will be equal to the difference between the sum of all the other debit balances, and the sum of the credit balances; that is, it will show the amount of cash in the bank. The General-Ledger is usually kept on the progressive plan, so that the balance of any account can be seen upon inspection, and its progress from any past period can be distinctly and readily traced.

VII.—*Periodical Balances.*

Daily Balance.—It is well known that bankers try their balance at the close of their business every night, with a view of correcting any errors that may have occurred during the day. The process is very easy. If to the amount of the Cash-Book last night, we add the amount of the cash received to-day, and deduct the amount of the cash we have paid, the remainder will be the amount of the Cash-Book to-night. If, on trial, we find this is not the case, there must be some error. Suppose, for instance, the Cash-Book last night amounted to £100,000, and we

have received £40,000 and paid £50,000 to-day, then will the Cash-Book to-night amount to £90,000. The trial stands thus :—

Cash-Book last night .	£100,000	Paid-Day-Book . . .	£50,000
Received-Day-Book .	40,000	Cash-Book to-night . .	90,000
	£140,000		£140,000

The daily balance, therefore, is nothing more than the balance of the Day-Book; and the only books employed are the Day-Book and the Cash-Book. But as these books, when finally closed, include the amount of several other books, the trial is usually made (for the purpose of avoiding alterations) on a half-sheet of paper, called the trial paper, previous to those entries being made, and then the amounts of these several books are stated separately, in the following manner :—

Dr.	BANKING HOUSE.	*Cr.*
Amount of Cash-Book last night	Amount of Paid-Day-Book	
[This is usually called the Rest.]	Ditto of Clearing-in-Book	
Ditto of Received-Day-Book	Ditto of Balance of the Clearing	
Ditto of Bill-Journal . .	Do. of Cash-Book to-night	
Do. of Discount-Journal	Do. of Balance of Money-Book	
	Do. of Discount-Register	

The balance of the clearing is always to the credit of the house; for, if the clearing "takes out," then the bank notes paid away at the Clearing-house are entered in continuation of the clearing-out; so that, in this case, the balance is usually thrown a small sum on the other side. When the clearing is finally closed, the notes forming this balance are entered in continuation of the clearing-in,

and subsequently in the Cash-Book. The notes entered in the clearing-out are, of course, not entered in the Cash-Book.

Weekly Balances.—The daily balance checks the Waste-Books, the Discount-Register, the Journals, the Day-Books, the Lists, and the Money-Books. If any errors occur in any of these books throughout the day the balance will be wrong. But the daily balance does not check the Current-Account-Ledger, though this is the most important book of all. The Ledger is therefore "marked off" every morning against the Day-Book, the Bill-Journal, and the Clearing-in-Book: but this is not a sufficient check. Hence the balances of all the accounts in the Current-Account-Ledger should be taken off weekly in a book called the Current-Account-Balance-Book, and added together, and the amount made to agree with the balance of "current accounts" in the General-Ledger. This is usually done by the London bankers quarterly or half-yearly. When the Ledger is kept on the progressive plan, it may be done weekly without much trouble. The "Current-Account-Balance-Book" should be ruled so that the names of the parties having accounts may be placed under one another at the left hand, and all the rest of the left-hand page, and the whole of the right-hand page, divided into double cash columns—one column for the balances of the accounts when in cash, and the other for the balances overdrawn. On this plan it will not be necessary to write the names more than once in seven weeks.

In the same way the balances of the Discount-Ledger should be taken off weekly in the "Discount-Balance-Book." The balances of the General-Ledger are also taken off weekly in the "General-Balance-Book" in the way I have already described.

Half-yearly Balance.—The weekly balancing of the Ledger does not preclude the necessity for a half-yearly balance. The usual days for balancing are the last days of June and December. Some banks, however, balance on the *last Saturday* in June and December, and others on the 30th of June and on Christmas-eve. On the balancing day the following operations are passed through the books :—1. The current accounts will be debited for any interest or commission that may be due from the party to the bank.—2. The Current-Account-Ledger will be balanced, and the balance will be brought down as the commencement of the transactions of the ensuing half-year.—3. The customers' books must be balanced, and made to agree with the Current-Account-Ledger.—4. The interest due upon the outstanding deposit receipts must be calculated, and the sums added together.—5. The General-Ledger must be balanced, and at the December balance the amount standing to the debit of the several classes of expenditure must be passed to the credit of those accounts, and to the debit of profit and loss account, and the several sums of profit that have been realized upon Government Stock, India bonds, &c., are transferred to the credit of profit and loss account.

For each half-year a book must be provided to be called the Half-Yearly-Balance-Book. This Book will contain the following entries :—

1. A balance-sheet showing the balances of the respective accounts in the General-Ledger in the same way as the weekly balance-sheet.—2. A debtor and creditor balance-sheet, showing the exact condition of the bank.—3. An abstract of the profit and loss account.—4. A list of all the balances of the current accounts.—5. A list of all the outstanding deposit receipts, and the interest due upon each.—6. A list of all discounted bills, *current*, *i.e.* bills not

yet due.—7. A list of all deposited bills current.—8. A list of all other securities, distinguishing those that belong to the bank from those that are lodged by its customers.

The debtor and creditor balance-sheet will contain the same amounts as the balance-sheet of the General-Ledger (see page 68), but differently arranged. They may be disposed according to the form exhibited on the next page.

The abstract of the profit and loss account may be made out in the following form :—

Abstract of Profit and Loss Account, from Jan. 1 to Dec. 31.

Dr.				*Cr.*		
To Bank Premises .				By Interest on Bills discounted . . .		
Furniture . . .				By Interest on Loans		
Rent				By Commission on Current Accounts		
Salaries . . .				By Profit on Exchequer Bills, &c.		
Stationery. . .						
Incidental Expenses . . .						
Total Expenses . .						
Loss on bad Bills, &c.						
Balance in favour of the Bank . . .						

At the end of the year the final balance of the profit and loss account is transferred to other accounts according to the purposes to which it is to be applied. If intended to be held as a "surplus fund," it is transferred to that account. If intended to be divided among the proprietors, it is transferred to a "dividend account," which is raised for that purpose. If the balance of the profit and loss ac-

Statement of the Affairs of the Bank, on

Dr. THE _____ BANKING COMPANY. *Cr.*

DUE TO THE PUBLIC ON CURRENT ACCOUNTS.						DUE TO THE BANK ON OVERDRAWN ACCOUNTS.					
Head Office, Town						Head Office, Town					
Ditto, Country						Ditto, Country					
Branch A.						Branch A.					
Branch B.						Branch B.					
Branch C.						Branch C.					
Total Current Accounts	...	...	...			Total Overdrawn Accounts	...	...	...		
DEPOSIT RECEIPTS.						BILLS DISCOUNTED.					
Head Office						Head Office, Town					
Branch A.						Ditto, Country					
Branch B.						Branch A.					
Branch C.						Branch B.					
Total Deposit Receipts	...	...	...			Branch C.					
Notes in Circulation	...	...	...			Total Amount of Bills Discounted	...	...	...		
Credits on Agents	...	...	...			LOANS.					
Total Lodgments	...	...	...			Head Office					
INTEREST ACCOUNT.						Branch A.					
Head Office						Branch B.					
Branch A.						Branch C.					
Branch B.						Total Amount of Loans	...	...	...		
Branch C.						INVESTMENTS.					
Total Amount of Interest	...	...	...			Government Stock					
FUND FOR BAD DEBTS.						Exchequer Bills					
Head Office						India Bonds					
Branch A.						Other Investments					
Branch B.						Total Investments	...	...	...		
Branch C.						Total available Assets	...	...	...		
Total Amount of Fund for Bad Debts	...	...	...			EXPENDITURE.					
PAID-UP CAPITAL						Head Office					
						Branch A.					
SUNDRY ACCOUNTS.						Branch B.					
Forfeited Shares						Branch C.					
Dividends						Total Expenditure	...	...	...		
Unclaimed ditto						PAST-DUE-BILLS.					
Surplus Fund						Head Office					
Profit and Loss						Branch A.					
Total Sundry Accounts						Branch B.					
Total	...	...	...			Branch C.					
						Total Amount of Past-Due-Bills	...	...	...		
						SUNDRY ACCOUNTS.					
						Stamp Account					
						House Account					
						Ditto Branch A.					
						Ditto Branch B.					
						Ditto Branch C.					
						Total	...	...	...		
						GENERAL ACCOUNT OF CASH.					
						Head Office					
						Branch A.					
						Branch B.					
						Branch C.					
						Total Amount of Cash	...	...	...		
						Total	...	...	...		

count should be against the bank, then it must remain "on the wrong side," until further profits shall turn the balance the other way.

Besides the books connected with the business of banking, every joint-stock bank will require,

1. A SHAREHOLDERS' REGISTER.—In this book the names of the shareholders are entered chronologically in the order in which they become shareholders. The entry includes the date, the name, residence, number of shares, and sum paid.

2. TRANSFER-REGISTER.—In this book are entered the transfer of shares from one proprietor to another. The entry includes date of transfer, from whom transferred, residence, ledger-folio, to whom transferred, residence. purchase-money, transfer stamp.

3. PROPRIETORS'-LEDGER.—In this ledger each proprietor has an account open, in the same way as in a cash-ledger. He is credited for the number of shares, and an entry is made of the different instalments he may pay. When he sells or transfers his shares, he is debited the shares, and they are placed to the credit of the party who may have purchased them. The entry includes the date, number of register, calls and transfers, number of shares, and amount.

III. We shall now consider those Improvements of which the above system is capable, so as to render it more efficient in large establishments.

As a bank increases its business, it becomes of importance to improve its system of book-keeping, and to adopt means of increasing the efficiency of its clerks. A large establishment can generally be conducted with a less *proportionate* number of hands than a small one. It admits of a more extensive application of the principle of a division of

labour. In a small bank, one clerk may keep two or three books of various kinds, or perhaps act as both cashier and accountant. But in a large bank, each clerk is in general kept wholly to one employment. The effects of this separation of occupations are the same in banks as in manufactories; and the description of these effects given by Adam Smith will equally apply to both cases.

"The great increase in the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances: first, to the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."

The increase of dexterity by constant practice is very observable in the practice of "casting up." A clerk who is much accustomed to this operation will cast up a long column of figures with singular quickness and accuracy. It is also very observable in "calling over." Besides, owing to the abbreviations we have mentioned in page 45, a clerk in calling over will speak so rapidly that an unpractised ear will hardly be able to follow him. Mr. Babbage gives the following instance of great dexterity acquired by practice:—

"Upon an occasion when a large amount of bank notes was required, a clerk in the Bank of England signed his name, consisting of seven letters, including the initial of his christian name, five thousand three hundred times during eleven working hours, and he also arranged the notes he had signed in parcels of fifty each." [1]

[1] "The Economy of Machinery and Manufactures." By Charles Babbage.

The loss of time in passing from one operation to another is as obvious in mental processes as in those which are purely mechanical.

"When the human hand or the human head has been for some time occupied in any kind of work, it cannot instantly change its employment with full effect. The muscles of the limbs employed have acquired a flexibility during their exertion, and those to be put into action a stiffness during rest, which renders every change slow and unequal in the commencement. A similar result seems to take place in any change of mental exertion; the attention bestowed on the new subject is not so perfect at the first commencement as it becomes after some exercise." [1]

The invention of expedients for facilitating and abridging labour is also as common in a bank as in a manufactory.

Mr. Francis has recorded, in his "History of the Bank of England," a variety of improvements introduced into that establishment by Mr. William Rae Smee, son of a former chief accountant.

He proposed an alteration in the cheque office, by which he stated that the work which employed three principals and twenty-one clerks would be done more effectually by two principals and seven clerks. In the circulation department, the posting, which previously took fifty, occupied only eight clerks; whereas the whole of that department, conducted upon the old system, would probably have required before now a hundred additional assistants. In the National Debt Office Mr. Smee introduced such measures that "the directors were enabled so far to consult the accommodation of the public as to enable the transfers in the various offices to be made eight or nine days

[1] "The Economy of Machinery and Manufactures." By Charles Babbage.

later than usual, the business which formerly occupied about thirty-two days being accomplished in about twenty-three.[1]

Similar improvements have been introduced into commercial book-keeping.

"The old method of journalizing and posting each transaction separately unnecessarily swells the accounts in the ledger with a multiplicity of figures, which greatly increases the difficulty of balancing, and, to say nothing of extra labour and loss of time, the liability to error is always in proportion to the number of entries, and *vice versâ*. If a hundred sums are posted when one would answer, then a hundred chances of error are incurred where only one was necessary; and in the event of an error in adjusting the accounts, a hundred entries must be called over and examined instead of one."[2]

The expedients introduced to improve any system of book-keeping have for their object either the saving of time *directly* by abbreviating the entries, or to save time *indirectly* by new modes of preventing or detecting errors. And it may be observed, that a minute alteration, hardly worthy of being adopted in a small bank, where it would save but a few minutes a day, may be very properly adopted in a large establishment, where the time saved would be in proportion to the greater extent of business. Sometimes an entry may be shortened by omitting some of the particulars. Thus, where we have been accustomed to enter with every bill—the name of the last indorser—the drawer and his residence—the accepter and his residence—the date, term when due, and the amount—we may properly, perhaps, omit some of these items. Or where we

[1] "History of the Bank of England: its Times and Traditions." By John Francis. Vol. ii. p. 141.

[2] "Double Entry Elucidated." By B. F. Foster. P. 18.

have repeated the same entry in several books, we may enter it in fewer books—or, perhaps, make the individual entries in only one book, and enter the total amount in the others—or, at other times, the whole form of a book may be changed, and we may by a new arrangement obtain the same results more clearly and in less time. Almost every bank will occasionally make some alteration of this kind as its business may require. And even each accountant has usually some little expedients of his own for facilitating his daily operations. We will notice a few of those amendments that have been adopted with the view of saving time and labour in some of our banking establishments.

Some large banks have adopted the "horizontal system of book-keeping," which is in some respects an improvement on the system described in the former editions of this work. The chief difference is in the mode of ruling the Received and the Paid-Waste-Books.

The Received-Waste-Book, instead of being ruled as described on page 50, has *four* cash columns, three at the left hand as you face the book, and the fourth at the right hand, with a space between the third and the fourth. The different items of a credit entry, instead of being placed under one another, as in the former system, will be placed separately in the first three columns, and the total in the fourth column. Thus, if a sum of £543 10*s.* 7*d.* be received from Mr. Smith, and this sum consists of £3 10*s.* 7*d.* in coin or money, £100 in a Bank of England note, and £440 in a cheque on Jones, Loyd & Co., the entry will stand thus:—

Money.			Bank Notes.	Sundries.			Name.	Total.		
£	s.	d.	£	£	s.	d.	Smith.	£	s.	d.
3	10	7	100	440	0	0	Jones, Loyd & Co.	543	10	7

Thus it is seen that the first column is for money, the second column for bank notes, and the third column for "sundries;" that is, for all other articles; and these three columns are added together "horizontally," and the total brought out into the fourth cash column at the right hand. It will be observed, that the cashier has to add the items together, not longways, but crossways—not longitudinally, but "horizontally." After a little practice one way is just as easy as the other.

Some cashiers prefer having two columns only at the left hand, and two at the right hand, with the space between the second and third column, as the numbers of the bank notes, and the names of the bankers on whom the cheques are drawn, can then be placed on the same line, but this is not a matter of much consequence.

Now, if you "cast up" the first left-hand column, you will have at the close of the day the total amount of money, *i.e.*, coin, received during the day. If you cast up the second column, you will have the total amount of bank notes. The third column will give the total amount of "sundries." And the amount of these three columns together will be equal to the fourth column, containing the total amount of the credits. If this should not be the case, there must be some error, which must be discovered forthwith. Thus the Horizontal-Received-Waste-Book is a check upon itself. As soon as the cashier gets to the bottom of a page he casts up his book, and sees

that the three columns are exactly equal to the fourth. Thus he keeps his book right as he goes on. Whereas, in the former system, any error in the Received-Waste-Book would not be discovered till the General Balance was tried at the close of business, and not then, perhaps, until after a long course of "marking off."

To simplify my explanation, I have described the Received-Waste-Book as having only four cash columns, and these are perhaps enough for a small bank. But large establishments have sometimes seven or eight, perchance in the following order:—1. Money, *i.e.*, coin. 2. Bank notes. 3. Parcels of bank notes, called sundries. 4. Country notes. 5. Cheques on clearing bankers. 6. Cheques on bankers who do not clear. 7. Cheques on our own bank. ——— a space. 8. The total amount of the credit.

The Horizontal-Paid-Waste book is ruled with three cash columns. One to the left for the amount of the cheque paid; then an open space for the name; then a column for the bank notes, and another for the money, *i.e.*, coin. The London bankers do not pay away any bills or country notes in exchange for cheques, but only Bank of England notes and coin. The entry stands thus:—

Amount of Cheque.			Name and No. of Bank Note.		Bank Notes.	Money.		
£	s.	d.			£	£	s.	d.
101	4	3	White.	1473.	100	1	4	3

The amount of the columns containing the bank notes and the money will of course be equal to the column containing the amount of the cheques. And thus this Paid-Waste-Book contains a check upon itself.

The Horizontal-Paid-Waste-Book may have at the left hand two cash columns, one for the town and the other for the country departments, and also a separate column for the country notes; thus:—

Town.			Country.			Country Notes.	Name.	Bank Notes Paid.	Money.		

This prevents the necessity for having both a Town and a Country Paid-Waste-Book, while the two departments are still kept distinct. The country notes are also separated, and can be checked by themselves. When all are added together, the total of the three columns at the left must be equal in amount to the total of the two columns at the right hand. The articles paid must be equal to the bank notes and money which were issued in payment.

We shall now point out some of the advantages of the horizontal system of keeping the Waste-Books.

First. As all the receipts and payments of money, *i.e.* coin, are entered individually in the Received and Paid-Waste-Books, and the amounts added together, it will not be necessary that these sums be copied individually into the Money-Book. The total amount only of each column is entered in the Money-Book at the close of the day's business, and the Money-Book is balanced. Thus, all the time employed in making the entries individually in the Money-Book is saved.

Secondly. As all the credits to current accounts are added together in the Received-Waste-Book, it is not necessary they should be entered individually in the Day-Book.

They can be individually posted direct into the Ledger, and the total only be entered in the Day-Book. The same remark will apply to the Paid-Waste-Book. This is another saving of time and labour.

Thirdly. Every Waste-Book, as we have already intimated, is a check upon itself. We have spoken of a Received-Waste-Book, and a Paid-Waste-Book, as though a bank had but one—and in small banks this is the case. But in large banks, there are seven or eight cashiers or more, each having a Received-Waste-Book and a Paid-Waste-Book for the town department, and another Received-Waste-Book and Paid-Waste-Book for the country department, with a Supplementary-Received-Waste-Book, and a Supplementary-Paid-Waste-Book, and a Money-Book besides. Now, it is a great advantage to have the means of keeping all these books free from errors during the day, and to know at night that they are all correct. If the "Balance" be wrong, the field of inquiry is thus very much limited, and the time that would otherwise be employed in checking the Waste-Books is devoted to the examination of the other books of the bank.

Fourthly. This plan gives the means of checking separately those items that have a column appropriated to them. Take, for example, the column of bank notes. If we add to the amount of bank notes on hand last night the amount received to-day, and deduct the amount paid away, the remainder should be the amount on hand to-night. When this is the case the bank notes are right. In the same way we may check the money columns, the clearing columns, &c. Thus, when the trial balance is wrong, we can check these items separately, and thus more readily discover the error. Without this expedient we should have to "mark off" the whole business of the day.

It will be observed that the above Waste-Books refer only to receipts and payments on current accounts. All other receipts and payments are entered in a Supplementary-Receipt-Book and a Supplementary-Paid-Book. These books are ruled in the same way as the other Waste-Books, and they embody entries in connection with deposit receipts, received or paid, credits or debits to interest accounts, debits to salaries, taxes, incidental accounts, &c. &c. All these items are then entered in the Day-Book, from whence they are posted into the General-Ledger. A book is also provided, usually called a Transfer-Book, in which are entered all the cheques on the bank paid in by other customers, as these merely cause a *transfer* of the amount from one customer to another.

Books which are designed chiefly as registries or summaries should be kept on the horizontal system. Thus, a London bank which keeps an account with the Bank of England, will have to lodge to its credit notes, gold, silver, post-bills, cheques, dividend warrants, &c.

To keep a registry of this, a book may be opened horizontally—the first column at the left hand being the date; then the articles entered over separate columns, at the top of the page; afterwards a column for the total amount of all these items—then a credit column for the cheques drawn each day—and then the daily balance. If this book be made of such a size as to contain about thirty lines, then each page will contain the transactions of a month. And, by adding up the columns, the figures at the bottom of the page will show the separate amounts of notes, gold, silver, &c., paid into the Bank of England in the course of a month. By comparing the different pages, it will be seen on what months the largest or the smallest sums are paid into the bank.

In constructing Tables it is also best to follow the hori-

zontal system. Thus, to keep a record of the weekly returns of the Bank of England, it is best to arrange the items into columns, with the heading at the top of each column—the first column containing the dates of the several returns. It will then be easy to trace the fluctuations in any one item; such, for instance, as the "Public Deposits," "the Private Deposits," "the Rest," &c. &c. Some of the Returns published in the Appendix to the Parliamentary Evidence of 1847 have been arranged on this principle.

We will now notice some further improvements that have sometimes been adopted by large banks in their system of book-keeping. The great object of all these improvements is, as we have already mentioned, either to save time directly, in making the entries, or indirectly, by preventing or discovering errors. These are—

1. The abolition of the Discount-Register. Here the bills are entered at once in the Discount-Ledger, under the names of the respective parties for whom they are discounted; and the total amount of bills discounted each day is entered in the Day-Book from the Interest-Book, which contains the calculations of discount. The only objection to this plan is, that the space in the Discount-Ledger does not admit of so full a description of the bill as is usually given in the Discount-Register. The Bill-Register is also abolished in the same way.

2. The adoption of a Check-Ledger facilitates the discovery of errors, and thus diminishes the time employed in searching for them. Though this book is called a Check-Ledger, it is not kept ledger-wise. It is ruled with a cash column on each side the page. In the column opposite your left hand you enter, from the cheques themselves, all the cheques paid during the day. In the right-hand column you enter, from the Received-Waste-Books, all the

credits of the day. When you add up these two columns, they will of course agree with the amounts of the Paid-Waste-Book and the Received-Waste-Book. Thus the accuracy of the Check-Ledger is insured. Now, where the balances of the Current-Account-Ledger are checked every week, you employ the Check-Ledger to test their accuracy in this way. If to the amount of the balances of the Current-Account-Ledger last week, you add the total credits entered in the Check-Ledger during the week, and deduct the total debits entered in the Check-Ledger during the week, the remainder will show the total amount of the balances of the Current-Account-Ledger for the present week. Each Current-Account-Ledger will have a Check-Ledger, and thus each Ledger will be checked separately, so that when the total balance is wrong, it will at once be seen in which Ledger the error has occurred.

Time is sometimes lost by a clerk taking up the wrong book—opening it, putting it down, and then taking up the right one. A cashier, for instance, will sometimes take up the Paid-Waste-Book instead of the Received-Waste-Book. To prevent this, the two books may have covers of different colours—one white, the other green. Time may be lost by two clerks wanting the same book at the same time. The ledger-keeper may want to post from the Received-Waste-Book when the cashier is using it. To prevent this, there may be two sets of Waste-Books—one for Mondays, Wednesdays, and Fridays, and the other for Tuesdays, Thursdays, and Saturdays; and, to prevent mistakes, the names of the days should be written in large letters on the covers of the books.

IV. We will now make a comparison between the system of Book-keeping practised by Merchants and that practised by Bankers.

The merchants have their Waste-Book, Journal, Ledger. The bankers have their Waste-Book, Day-Book, Ledger.

In both cases the Waste-Book is the book in which transactions are first entered. But this book is capable of subdivision: it contains a record of various transactions, some of which may be entered in separate books. Bankers have their Received, Paid, and Supplementary Waste-Books; also their Deposit-Receipt-Book, Discount-Registers, and other books subsidiary to the Waste-Book. So merchants have their Waste-Books subdivided into various books, according to the nature of the transactions. There is the Invoice-Book, containing an account of all goods purchased; the Sales-Book, containing an account of all goods sold; a book for "Bills Receivable," containing a list of all bills in the merchant's hands, which when due he will *receive;* another for bills payable, containing a list of all bills he has accepted, and which when due he will have to pay; a Cash-Book, containing an account of all cash he receives or pays away; and several others, varying according to the character and extent of the business. Now all these subdivisions of the merchant's Waste-Book resemble those of the banker's in two things:—first, they are all kept *chronologically*—they contain a record of the transactions in the order of time in which they occurred; and, secondly, all the transactions thus recorded must afterwards, upon the system of double entry, pass, either individually or in totals, through the book which merchants call a Journal, and bankers call a Day-Book.

The words "Journal" and "Day-Book" have the same meaning, and in this instance the use of the two books is similar. But in the merchant's Journal individual transactions may be entered, while in the banker's Day-Book they are always entered in totals. Thus the total amount of "Bills Discounted," and the total amount of credits

and payments on current accounts, are entered in the Day-Book, but not the individual items. Another difference is, that over each entry in the merchant's Journal you state to what account it is to be posted; for every entry is posted to two accounts—to the debit of one account, and to the credit of the other. And this is denoted by Dr. being placed before the name of the account to be debited. Thus, if a merchant buys some goods for ready money, the journal entry is preceded by—

Goods Dr. to Cash;

implying that the account "Goods" is to be debited, and the account "Cash" to be credited. On the other hand, if he sells goods for ready money, the transaction will be journalized thus:—

Cash Dr. to Goods.

If he sells goods upon credit to John Brown, it will be—

John Brown Dr. to Goods.

If he sells goods for a bill of exchange, it will be—

Bills receivable Dr. to Goods.

If he sends goods abroad, as a speculation, in the ship *Adventure*, he may raise an account for the ship, and say—

Ship Adventure Dr. to Goods.

The entries in the banker's Day-Book are made daily, but the entries in the merchant's Journal are generally made once a month.

THE LEDGER.—We have stated that in the merchant's Ledger every entry is made twice—one account being debited, and another credited—and these two accounts are indicated in the Journal. This is what is called book-keeping by double entry. If it be asked, whether bankers keep their books by double entry?—the answer is, that

those bankers who have no General-Ledger (and this is the case with not a few of the private bankers) do not keep their books by double entry. The Current-Account-Ledger is not kept by double entry. It contains none but personal accounts, and its accuracy is tested only by the periodical balancings. The banker's Ledger, which corresponds in this respect with the merchant's Ledger, is not the Current-Account-Ledger, but the General-Ledger. This is kept by double entry. In a ledger kept by double entry, the sum of all the debit balances will be equal to the sum of all the credit balances ; and the sum of all the debit amounts will be equal to the sum of all the credit amounts. When this is not the case there is an error in some of the accounts. This is the case with the banker's General-Ledger. But, as the transactions are not posted individually, but only in totals, the double entry does not appear on the face of the accounts. Thus, if a bill be discounted for a customer, and the amount placed to the credit of his current account, the Journal entry, on the principle of mercantile book-keeping, would stand thus :—

Bills Discounted Dr. to Current Accounts.

But the bill discounted is placed to the debit of the account of " Bills Discounted," in a total of all the bills discounted on that day. And the amount is placed to the credit of Current Accounts, in the total of all the sums received to the credit of Current Accounts on that day. Thus, the " double entry," though equally real, is not so apparent as though the transactions were posted individually.

So, again, if a country banker should discount a bill, and the customer ask for a draft on his agent in London, the Journal entry, on the commercial system, would stand thus :—

Bills Discounted Dr. to Drafts on London.

It would go to the debit of "Bills Discounted," in the total of all the bills discounted that day, and it would go to the credit of "Drafts on London," in the total of all the drafts on London issued on that day.

The accounts in a merchant's Ledger are usually classified into Personal Accounts, Real Accounts, and Profit and Loss Accounts. The Personal Accounts are the accounts of persons who may owe the merchant money, or to whom he may owe money. The Real Accounts are accounts denoting property, such as cash, bills receivable, bills payable, merchandise, ship adventure, &c. The Profit and Loss accounts are rent, commissions, expenses, and all other accounts which are ultimately transferred to the debit or the credit of the Profit and Loss Account.

The banker's General-Ledger has no Personal Accounts, as these are all kept in the Current-Account-Ledger. The usual accounts are those I have enumerated in page 69, and are all either Real Accounts or Profit and Loss Accounts.

It would be possible (but not desirable) to introduce all the Personal Accounts into the banker's General-Ledger, and thus to form the Current-Account-Ledger and the General-Ledger into one, and keep the whole by double entry. In this case we should omit the totals of Current Accounts, now introduced into the General-Ledger, and insert every transaction individually. If John Brown drew a cheque on the bank, the Journal entry would stand thus:—

John Brown Dr. to Cash.

And if he paid in money to his credit, the Journal entry would stand thus:—

Cash Dr. to John Brown.

All the entries passed to the Dr. and Cr. of these Personal

Accounts would of course pass to the Cr. and Dr. of Cash. Indeed, all the entries to the Dr. and Cr. of Cash would be the same as are now made in the Check-Ledger, except that the debtor column would be called creditor, and the creditor column would be called debtor. By the use of such a Check-Ledger as we have described, page 89 (for there are various kinds of Check-Ledgers), the Current Accounts are virtually kept by double entry; and we have the additional advantage that, when there are more than one Ledger, we are enabled to check each Ledger separately.

To accountants in banks where a General-Ledger is not kept, it appears strange that "Cash" should be *credited* for money which is *paid away* and *debited* for money which is received. But this strangeness will vanish, if for the word "Cash" they would fix in their mind the word "Cashier." If they had an account with a cashier, they would of course *debit* him, as they do their banker, for all moneys they paid into his hands, and credit him for all moneys they drew out. And the difference between the amounts of these debits and credits would be the balance either in their favour or against them.

In thus comparing the commercial and the banking systems of book-keeping, I have hitherto supposed that all merchants keep their books by double entry. But this is not always the case with the smaller houses. And then their system more nearly resembles the system of those bankers who do not keep a General-Ledger.

"In keeping books by single entry, the *Daily-Books* are kept in the same manner as in double entry, with the exception of a column of reference to the Ledger in each book, which takes the place of a column of reference in the Journal—this book being dispensed with. The entries are posted directly from the Daily-Books into the Ledger. In

the Ledger, by single entry, strictly speaking, there ought to be only one kind of accounts; namely, Personal Accounts, including all persons to whom a merchant becomes indebted, and all persons who become indebted to him." [1]

It will be seen from this account, that, in mercantile book-keeping by single entry, the merchant's Ledger resembles the Current-Account-Ledger of the banker. In single entry the merchant dispenses altogether with his Journal; but the banker usually retains his Day-Book, even when he does not keep a General-Ledger. But, in this case, the Day-Book contains only the debits and credits, individually, of the Current Accounts, which are posted afterwards into the Current-Account-Ledger. In the horizontal system, as we have stated, the debits and credits of the current accounts are not entered individually in the Day-Book, but the total amounts are taken from the Paid and Received-Waste-Books.

[1] "Wallace's Pocket Guide to Commercial Book-Keeping."

SECTION XXVII.

BANKING DOCUMENTS.

BY banking documents I mean prospectuses, applications for shares, letters of allotment, deeds of settlement, certificates of shares, deeds of transfer of shares, notices of calls for further payment on shares, &c., bonds of security by managers and clerks, declarations of secrecy by the same, agreements with reference to lodgment of deeds as security, cash credit bonds, letters of guarantee for the due payment of bills not endorsed by the person discounting same, or for the due payment of bills discounted to a third party, or for the due repayment of loans.

I. Forms of those documents above enumerated, used in the formation of a joint-stock bank, vary so greatly at the discretion of promoters and solicitors that it is not expedient to reproduce them here. Such forms are, however, easily obtainable.

When any persons propose to form a joint-stock bank in any district, they procure the statistical returns of the district; such as the tables of the population—the exports and imports—the duties paid—the returns of the sales in the various markets—and every other information respecting the trade and wealth of the district. If these prove satisfactory, they take notice of the banks already established there, and observe whether they are joint-stock banks or private banks—whether strong or weak—and whether likely to oppose or to join any new establishment. If the existing banks be joint-stock banks, the projectors

procure from the stamp-office a list of the shareholders, in order to observe the strength of their proprietary, and whether they reside chiefly in the district.

Having satisfied themselves that a new bank would be successful, the first document drawn up is a prospectus. This document usually sets forth the great advantage of joint-stock banking to both the public and the shareholders, and then points out the facilities of the district in which the bank is proposed to be established.

Previous to issuing the prospectus, some leading persons in the district are requested to become members of a provisional committee for the formation of the bank, and they obtain the assistance of an influential solicitor, to whose office the applications for shares are usually addressed. The committee then appoint a secretary, or sometimes the office of secretary is filled by the solicitor.

Attached to the prospectus is the form of an application for shares.

As the applications come in, they are entered in a book prepared for the purpose. In the first column is entered the date of the application; then follow the name, profession, and residence of the applicant; then the number of shares applied for, and in a farther column the number of shares granted. After the committee have determined what number of shares to allot to each applicant, letters are addressed to the respective parties.

After the sums to be paid up have been received, a general meeting of the shareholders is called, when the provisional committee make a report of their proceedings. Resolutions are then passed.—1. That the report be received and printed.—2. That certain shareholders then named be appointed directors. The bank is now formed, and the government is assumed by the directors. They appoint the manager and other officers; they prepare the

deed of settlement; and they adopt the measures necessary for the commencement of business.

II. I shall now notice those documents that are used after a bank is established, and are requisite in the ordinary course of business.

I.—*Bonds of Security by Managers and Clerks.*

At the time the first editions of this work were issued, bonds of security for the officers and others were entered into by themselves personally, and by two or three sureties, either jointly or severally, for a specified amount, which amount was assessed in accordance with the importance and responsibility of the duties to be discharged. These bonds had for their general object the guarantee of the fidelity and honest conduct of such officers. But as of late years associations have been instituted for the special purpose of guaranteeing banks and other companies against loss sustained through the dishonest or faithless conduct of their servants, it is not now customary for banks to require two personal sureties from their officers, although it is still customary to require a personal bond from each. Indeed, the advantages afforded by the guarantee of a public company over that of private individuals are so obvious, that banks almost invariably prefer that of the former. There are now guarantee and suretyship associations in London and elsewhere; and as their charges are on the whole so moderate, and as they never refuse to entertain any application by any individual of ordinary integrity, there is every inducement for every bank officer to seek the intervention of such associations rather than trouble private friends.

It has also become a common practice with large banks

(see p. 16) to inaugurate guarantee funds of their own, thus obviating the necessity on the part of their employés of applying to personal friends or to the guarantee societies. It has been said that the charges of the latter are on the whole moderate, but still, as they remain the same from year to year, they are extravagant as compared with the rates charged by banks who have guarantee funds of their own, and whose sole object is, not to make profits, but to protect themselves at the least possible cost to their employés.

It is usual in establishing a fund of this kind to institute it by a resolution of the board of directors, who also frame rules for its regulation. It is made compulsory upon everyone in the service of the bank to subscribe to the fund. The directors take power to rate every officer at such a sum as from time to time they shall see fit. The contributions on such rating vary in different establishments—in some it is as low as 2*s*. 6*d*. per cent., and in others as high as 5*s*. And in order to give solidity to the fund in its infancy, it is usual for the directors to grant a contribution of £400 or £500 per annum for the first four or five years. In some instances, it is usual for the bank itself to pay the subscriptions of those officers whose salaries do not exceed a certain limit—say £50. The account of the fund is credited with the contributions and debited with the losses, but the latter only to such an extent as the individuals causing such losses shall have been rated at. When the balance of the fund reaches a certain amount—an amount which in the opinion of the directors shall be sufficient to cover all possible contingencies of loss, say £10,000, then the older contributors may safely be relieved from all further contributions, so long, at least, as the maximum balance of the fund shall remain intact. Should the balance be reduced by losses, then those contributors who may have

been relieved, may be again required to contribute until the balance be again made up. It is the rule in some banks to draw the line of relief at those contributors who may have subscribed to the fund an aggregate amount of £1 per cent. on the highest sum at which they may at any time have been rated. Experience has shown that such a sum as £10,000 is ample to maintain as a permanent balance, and when the balance exceeds that sum, it is customary, in addition to exempting the older contributors, to transfer the surplus to the credit of another fund for the benefit of former contributors, or their widows, or other dependents in needy circumstances, or otherwise.

II.—*Declarations of Secrecy.*

The following is a form for the officers, who, in some establishments, are required to sign it annually.

We, the undersigned persons, being respectively managers, accountants, cashiers, tellers, and clerks of the Banking Company, do severally declare that we will respectively, faithfully, honestly, and impartially discharge the several duties devolving on us as such managers, accountants, cashiers, tellers, and clerks as aforesaid, according to the directions of the directors of the company, and any laws or regulations that may be made by them. And we do hereby severally pledge ourselves, and as inviolably as if we had taken our oaths thereto, that we will observe the strictest secrecy on the subject of all transactions of every description of the company with their customers for the time being, or with any other bodies or persons whatever, and on the subject of the state of the accounts of all bodies and individuals, from time to time, having accounts with the said company. Dated this day of 18 .

III.—*Memorandum of Agreement with reference to the lodgment of Deeds.*

Memorandum, that on the day of in the year of our Lord, one thousand eight hundred and , hath delivered to at their office in in the county of , the several title deeds and documents mentioned and comprised in the schedule hereunto annexed, for the purpose of securing to the proprietors in the said banking company for the time being, of whomsoever the said banking company may from time to time consist, all and every sum and sums of money which shall at any time hereafter be due or owing from on the balance of his account current with the said banking company either for money paid or advanced, or to be paid or advanced, by the said banking company unto the said , or at his request, or which shall be secured by any bond or bill of exchange drawn or endorsed by the said , or by any promissory note or other contract whatsoever, with interest for the same respectively, from the several times at which they respectively shall be advanced, or at which the said bonds, bills, notes, or other contracts respectively shall become due, and thenceforth, until payment thereof respectively after the rate of per centum per annum, with commission and other usual banker's charges, so as the same do not exceed in the whole the sum of pounds.

And the said doth hereby promise and agree with and to the said banking company, that he the said whenever thereunto required by the said banking company, shall and will effectually convey and assure all and singular the hereditaments and premises comprised in the said deeds and writings unto and

to the use of the said banking company, in such manner as shall be lawfully required by them, free from incumbrances; subject nevertheless to redemption on payment by the said of such sum of money as shall be therein expressed to be secured with interest in manner aforesaid. And in the said indenture of mortgage shall be contained all usual clauses and covenants, with power of sale in case default shall be made in payment of the principal and interest to be thereby secured or any part thereof. As witness the hand of the said the day and year first above written.

(The Schedule above referred to.)

Form of Letter

To be signed by a Party lodging Deeds or other Documents as Security for Advances of Money.

(1.)

To the Directors of the Banking Company.

Gentlemen,

I have sent you the title deeds and other writings relating to my several freehold and copyhold estates and properties in or near in the county of , and which documents I hereby declare are deposited with you as a security for all sums of money now or hereafter to become due from me either solely or jointly with others to the said banking company, either upon banking account or in any other manner howsoever (including interest, commission, and all other usual banking charges), and I hereby engage upon request to execute to you a mortgage of the said tenements and premises for the better securing the said sum or sums of money intended to be hereby secured, such mortgage to contain a power

of sale, and all other usual covenants, and to be at my expense.

I am, &c.,

(2.)

Gentlemen,

In consideration of the loans advances or discounts which may be made to me or upon my request, by you, I hereby charge all or any title deeds or other property belonging to me which I may place or leave in your hands with the repayment of all such loans advances or discounted bills together with all costs interest and charges thereon; and I hereby undertake to make an assignment by way of mortgage with power of sale whenever called upon to do so, of the property which I may or shall be entitled to under such title deeds.

I am, &c.,

(3.)

Gentlemen,

Having this day borrowed from you the sum of upon a deposit of the under-mentioned securities which sum is to be repaid to you with interest at the rate of per cent. per annum on the next, I hereby authorize you in case the said sum of shall not be repaid as aforesaid, to sell the said securities or any part thereof whenever you may think proper so to do, and repay yourselves the aforesaid sum of and interest, returning to me the surplus (if any) or holding it for my account; and in the event of any deficiency I hold myself responsible to you and the survivor of you for the same.

I am, &c.,

IV.—*Cash Credit Bonds.*

As the business of granting cash credits is more common in Scotland than in England or Ireland, it will suffice to give the forms of such bonds as used by one of the banks in the former country. It will be seen that the latter part has a reference to the peculiar law of Scotland, but the form can easily be adapted for the use of banks established in England in such cases where such banks have no form of their own:—

Form of Bond where an Individual is the principal Obligant.

We, A. B., of , C. D., of , and E. F., of , Considering that the Directors of the Bank of Scotland have agreed to allow us credit upon an Account Current or Cash Account, to be kept in the books of the said Bank at , to the amount of sterling, upon our granting these presents, do therefore hereby bind and oblige ourselves, and our heirs, executors, successors, and representatives whomsoever, without the necessity of discussing them in their order, all jointly and severally, to make payment on demand, at any time after three months from the last date hereof, to the said Bank of Scotland, or to the assignees of the said Bank, and the heirs and successors whatsoever of such assignees, of the said sum of or such part or parts thereof as shall at any time be due upon the said Cash Account, with Twenty Pounds sterling of penalty for every hundred pounds of principal in case of failure in payment, and proportionally for more or less, and together also with interest of the principal sum or sums which may be due on the said account from the respective times of the advance, as appearing in the stated

account after-mentioned, until the same shall be repaid, at the rate of five pounds per centum per annum, or at such higher rate or rates as shall be charged by the said Bank for the time upon their advances upon Cash Accounts: Declaring that the said Bank shall have power to fix and to alter the rate of interest from time to time without notice given to us the said obligants, or to of us, or our foresaids: And it is hereby declared, that the sums to be placed to the debit of the said Cash Account shall include not only all sums of money which shall be advanced, or shall have been advanced by the said Bank to the said upon drafts or orders upon the said Cash Account, or upon the said Bank of Scotland, or the manager of the said Bank for the time, or upon the manager or agent of the said Bank at any branch office of the said Bank, where the said Cash Account may be kept at the time, but also all other advances of every kind which the said Bank at any time shall make or become responsible for, or shall have made or become responsible for, to or on account, or on the credit of the said and generally all sums which the said shall at any time be owing or in any way liable for to the said Bank; the amount of all which debts and liabilities the said Bank shall be entitled at any time to place to the debit of the said Cash Account; But without prejudice always to any other securities held or that may be held by the said Bank for such debts and liabilities, and Declaring that it shall be in the option of the said Bank to charge the same to the said Cash Account or not, as the directors shall think fit; And it is hereby further declared, that the said Cash Account may be kept at any office or branch of the said Bank of Scotland, at the pleasure of the directors; and it is hereby

further declared, that a stated Account signed by the manager or accountant of the said
Bank of Scotland at Edinburgh, or by any of their clerks, or by any of the agents or accountants of the said Bank at any branch office of the said Bank where the said Cash Account may be kept at the time, or by the creditors under these presents for the time, shall be sufficient to ascertain and constitute a balance and charge against us and our foresaids, and shall also sufficiently ascertain and fix the rate or rates and the amount of interest chargeable on the said advances which shall have been made to me the said upon the said Cash Account as aforesaid, and that no suspension of a charge or threatened charge for payment of the balance so ascertained, at the instance of us, or of us or our foresaids shall be presented or passed, except on consignation of the sums charged for or claimed, by the said Bank. And we consent to registration for preservation and execution.—In witness whereof, &c.

Form of Bond where a Firm or Company are the principal Obligants.

We, A. B., of , C. D., of , and E. F., of , the individual partners of the Company carrying on business as , under the firm of B. D. and F.; And we, G. H., of , and I. J., of , considering that the directors of the Bank of Scotland have agreed to allow us credit upon an Account Current or Cash Account, to be kept in the books of the said Bank at , to the amount of sterling, upon our granting these presents: Therefore we, the said A. B., C. D., and E. F., do hereby bind and oblige ourselves, both as partners of the said

Company, and as individuals, and our heirs, executors, successors, and representatives whomsoever, without the necessity of discussing them in their order, and also the said Company of , and stock and profits thereof, and we, the said G. H. and I. J. do hereby bind and oblige and heirs, executors, successors, and representatives whomsoever, without the necessity of discussing them in their order,—We the said obligants and our foresaids and the said Company being all hereby bound jointly and severally,—to make payment on demand, at any time after three months from the last date hereof, to the said Bank of Scotland, or to the assignees of the said Bank, and the heirs and successors whatsoever of such assignees, of the said sum of , or such part or parts thereof as shall at any time be due upon the said Cash Account, with Twenty Pounds Sterling of penalty for each hundred pounds of principal, in case of failure in payment, and proportionally for more or less, And together also with interest of the principal sum or sums which may be due on the said Account, from the time or respective times of the advance, as appearing in the stated Account after mentioned, until the same shall be repaid, at the rate of Five pounds per centum per annum, or at such higher rate or rates as shall be charged by the said Bank for the time upon their advances on Cash Accounts: Declaring that the said Bank shall have power to fix and to alter the rate of interest from time to time without any notice given to us the said obligants, or to any of us, or to the said Company: And it is hereby declared that the sums to be placed to the debit of the said Cash Account shall include not only all sums of money which shall be advanced or shall have been advanced by the said Bank to the Company of upon their drafts or orders upon the

Cash Account, or upon the said Bank of Scotland, or the manager of the said Bank for the time, or upon the manager or agent of the said Bank at any branch office of the said Bank where the said Cash Account may be kept at the time, but also all other advances of every kind which the said Bank at any time shall make or become responsible for, or shall have made or become responsible for, to or on account, or on the credit of the Company of and generally all sums which the Company of shall at any time be owing or in any way liable for to the said Bank; the amount of all which debts and liabilities the said Bank shall be entitled at any time to place to the debit of the said Cash Account; But without prejudice always to any other securities held by the said Bank for such debts and liabilities, and Declaring that it shall be in the option of the said Bank to charge the same to the said Cash Account or not, as the said Bank shall think fit; And declaring also that the said Cash Account may be kept at any office or branch of the said Bank of Scotland at the pleasure of the Bank; And it is hereby specially provided and declared, that although any changes may take place in the copartnery of
as at present existing, by the expiry or other determination of the existing contract of copartnery, or by the death or retirement of the present partners, or of them, or by the assumption of new partners or otherwise, we, the said obligants and the said Company of
shall still remain bound jointly and severally to the said Bank and their foresaids for the said sum of
or such part or parts thereof as the said Bank shall at any time advance or become responsible for, or shall have advanced or become responsible for, as aforesaid, to or on account or on the credit of the surviving and continuing

partner of the present copartnery under the said firm of or to or on account or on the credit of any copartnery carrying on business under that firm of which we the said or of us shall be partners or a partner, or to or on account or on the credit of any person or persons, or any copartnery (whether we or of us shall be partners or a partner in such copartnery or not) who shall carry on business under that firm, and shall deal with the said Bank in continuation of the account and dealings of the present or any other previous copartnery under that firm, or as in the place of the present or any other previous copartnery, with interest and penalty as aforesaid, and generally for all the debts and liabilities of any such person or persons or co-partnery to the said Bank, so far as the same may be charged to the said account, as aforesaid; but without prejudice to the claims of the said Bank against the other partners of any such copartnery, or any other person or persons who may be bound or liable for the same: It being hereby expressly stipulated and agreed that such surviving and continuing partner of the present copartnery, or any such new or altered copartnery as aforesaid, shall be entitled to operate under the said firm on the said Cash Account, and that the obligations herein contained, and the security constituted by these presents, are and shall be applicable to all the debts and liabilities to the Bank of the person or persons or copartnery entitled so to operate under this provision and declaration, as well as to all the debts and liabilities to the Bank of the said copartnery of as now constituted, so long as the said credit shall be continued by the said Bank, or until notice shall have been given by some one or more of the obligants under these presents to the manager, or secretary, or accountant of the said Bank in Edin-

burgh, that their liability for any such copartnery is to cease; And it is hereby further declared that a stated account, signed by the manager, or secretary, or accountant of the said Bank of Scotland in Edinburgh, or by any of the agents or accountants of the said Bank at any branch office of the Bank where the said Cash Account may be kept at the time, shall be sufficient to ascertain and constitute a balance and charge against us the whole obligants in these presents and our foresaids, and against the said Company, and that such a stated account, or a statement or certificate under the hand of the creditors in these presents for the time, shall sufficiently ascertain and fix the amount of interest chargeable on the advances upon the said Cash Account as aforesaid, and that no suspension of a charge or threatened charge for payment of the balance so ascertained, at the instance of us or of us, or our foresaids, or of the said Company, shall be passed, or presented, except on consignation of the sums charged for or claimed by the said Bank or their foresaids.—And we consent to registration for preservation and execution.—In witness whereof, &c.

V.—*Letters of Guarantee with reference to Bills Discounted or Advances.*

Bill brokers usually give a letter of guarantee instead of indorsing the bills they have discounted with the bankers. And sometimes one party will guarantee to the bank the bills discounted for another, or the overdrafts or advances made to another.

(1.)

To the Directors of the Banking Company.

Gentlemen,

In consideration of your discounting to us the bills as specified below, we hereby guarantee to you the due re-

payment of the same at maturity, as if they had been endorsed by us.

I am, &c.

(2.)

Gentlemen,

Mr. A. B. may have occasion to offer you sundry bills for discount. In consideration of your discounting such of them as you approve of, which I request you to do, I hereby guarantee to you the due repayment of such bills as they respectively mature.

I am, &c.

(3.)

Gentlemen,

In consideration of your honouring the cheques of Mr. , or otherwise advancing him sums of money, I hereby guarantee the repayment thereof upon demand to the extent of pounds sterling.

I am, &c.

SECTION XXVIII.

THE BANK OF ENGLAND.

THE history, constitution, and administration of the Bank of England up to the year 1828 have been traced in an early chapter of the present edition, and, later on, are continued to several years after the passing of the all-important Bank Charter Act of 1844 (7 & 8 Vict. c. 32), the principal provisions of which are as follows :—

"I. That from and after the 31st of August, 1844, the issue of promissory notes of the Governor and Company of the Bank of England, payable on demand, shall be kept wholly distinct from the general banking business of the said governor and company; and the business of such issue shall be thenceforth conducted and carried on by the said governor and company in a separate department, to be called 'the issue department of the Bank of England;' and it shall be lawful for the court of directors to appoint a committee or committees of directors for the conduct and management of such issue department.

"II. That upon the same day there shall be transferred, appropriated, and set apart by the said governor and company to the issue department securities to the value of fourteen million pounds, whereof the debt due by the public to the said governor and company shall be a part; and at the same time so much of the gold coin and gold and silver bullion as shall not be required by the banking department; and thereupon there shall be delivered out of the issue department into the banking department such an

amount of notes as, together with the notes then in circulation, shall be equal to the aggregate amount of the securities, coin, and bullion so transferred to the issue department; and it shall not be lawful for the governor and company to increase the amount of securities for the time being in the issue department, save as hereinafter is mentioned, but it shall be lawful for them to diminish the amount of such securities, and again to increase the same to any sum not exceeding in the whole the sum of fourteen million pounds, and so from time to time as they shall see occasion; and from and after such transfer and appropriation to the issue department it shall not be lawful for the governor and company to issue bank notes, either into the banking department, or to any persons or person whatsoever, save in exchange for other Bank of England notes, or for gold coin or for gold or silver bullion received or purchased for the issue department under the provisions of this Act, or in exchange for securities acquired and taken in the issue department under its provisions: Provided always, that it shall be lawful for them in their banking department to issue all such notes as they shall at any time receive from the issue department.

"III. That it shall not be lawful for the bank to retain in the issue department at any one time an amount of silver bullion exceeding one-fourth part of the gold coin and bullion at such time held in the issue department.

"IV. That all persons shall be entitled to demand from the issue department bank notes in exchange for gold bullion, at the rate of three pounds seventeen shillings and ninepence per ounce of standard gold.

"V. That if any banker who on the 6th of May, 1844, was issuing his own bank notes shall cease such issue, it shall be lawful for Her Majesty in Council to authorize the governor and company to increase the amount of secu-

rities in the issue department to an amount not exceeding two-thirds the amount of bank notes which the banker so ceasing to issue may have been authorized to issue; and every such order in council shall be published in the next succeeding 'London Gazette.'

"VI. That an account of the amount of notes issued by the issue department, and of gold coin and of gold and silver bullion respectively, and of securities in the issue department, and also an account of the capital stock, and the deposits, and of the money and securities belonging to the said governor and company in the banking department, on some day in every week to be fixed by the commissioners of stamps and taxes, shall be transmitted weekly to the said commissioners, and shall be published by them in the 'London Gazette.'

"VII. That from the same date the bank shall be released from payment of any stamp duty upon their notes.

"VIII. That from the same date the payment of the annual sum of £120,000 made by the bank under the provisions of the Act passed in the fourth year of the reign of his late Majesty King William the Fourth, out of the sums payable to them for the charges of management of the public unredeemed debt, shall cease, and in lieu thereof, in consideration of the privileges of exclusive banking, and the exemption from stamp duties, given to them by this Act, they shall, during the continuance of such privileges and such exemption, allow to the public the annual sum of £180,000.

"IX. That all profits derived by the bank from the increase of their issues beyond the £14,000,000 prescribed by the Act shall go to the public.

"X. That from and after the passing of this Act no person other than a banker who on the 6th of May, 1844,

was lawfully issuing his own notes shall issue notes in any part of the United Kingdom.

"XI. That after the passing of this Act it shall not be lawful for any banker to draw, accept, make, or issue, in England or Wales, any bill of exchange or promissory note or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up, in England or Wales, any sums or sum of money on the bills or notes of such banker payable to bearer on demand, save and except that it shall be lawful for any banker who was on the 6th of May, 1844, carrying on the business of a banker in England or Wales, and was then lawfully issuing, in England or Wales, his own bank notes, under the authority of a license to that effect, to continue to issue such notes under the conditions hereinafter mentioned; and the right of any company or partnership to continue to issue such notes shall not be prejudiced by any change which may take place in the personal composition of such company or partnership: Provided always, that it shall not be lawful for any company or partnership now consisting of only six or less than six persons to issue notes after the number of partners therein shall exceed six.

"XII. That if any banker in any part of the United Kingdom who after the passing of this Act shall be entitled to issue notes shall become bankrupt, or shall discontinue the issue of notes, it shall not be lawful for him to resume such issues.

"XIII. That every banker claiming under this Act to continue to issue notes in England or Wales shall, within one month after the passing of this Act, give notice in writing to the commissioners of stamps and taxes of such claim, and of the place and name and firm at and under which such banker has issued such notes during the twelve weeks next preceding the 27th of April, 1844 · and

thereupon the commissioners shall ascertain the average amount of those twelve weeks' issues; and it shall be lawful for every such banker to continue to issue his own notes: Provided, nevertheless, that such banker shall not have in circulation upon the average of a period of four weeks, to be ascertained as hereinafter mentioned, a greater amount of notes than the amount so certified.

"XIV. That if it shall be made to appear to the commissioners of stamps and taxes that any two or more banks have become united within the twelve weeks, it shall be lawful for the commissioners to certify the average amount of the notes of the two or more banks so united as the amount which the united bank shall thereafter be authorized to issue, subject to the regulations of this Act.

"XV. That the said commissioners shall, at the time of certifying, publish a duplicate of their certificate in the 'London Gazette,' and the 'Gazette' shall be conclusive evidence in all courts whatsoever of the amount of notes which the banker named in such certificate or duplicate is by law authorized to issue.

"XVI. That it shall be lawful in case banks become united, for the commissioners to certify the amount of bank notes which each bank was authorized to issue, and the amount stated shall be the limit of the amount of notes which such united bank may have in circulation: Provided always, that it shall not be lawful for any such united bank to issue notes at any time after the number of partners therein shall exceed six.

"XVII. That if the monthly average circulation of notes of any banker shall at any time exceed the amount which such banker is authorized to issue, he shall in every such case forfeit a sum equal to the amount by which the average monthly circulation shall have exceeded the amount which such banker was authorized to issue.

"XVIII. That every banker in England and Wales authorized, under the provisions of this Act, to issue notes, shall transmit to the commissioners of stamps and taxes a weekly account of his issues, for them to publish in the 'Gazette;' and if such banker shall neglect or refuse to render such account as required by this Act, or shall render a false account, he shall forfeit the sum of £100 for every such offence.

"XIX. In this clause the mode of ascertaining the average amount of notes of each issuing bank was set forth.

"XX. The commissioners were empowered to cause the books of bankers, containing accounts of their notes in circulation, to be inspected, and, if it were thought fit, copied; and a penalty, in case of refusal, of £100 for every such offence imposed on the refusing banker.

"XXI. All bankers to return their names once a year to the Stamp Office.

"XXII. Bankers to take out a separate license for every place at which they issue notes or bills; with a proviso in favour of bankers having four such licenses in force on the 6th of May, 1844.

"XXIV. The Bank of England are authorized to compound with banks desirous of withdrawing their own notes and issuing those of the Bank of England; the amount of composition not to exceed 1 per cent. per annum, and payment thereof to cease on the 1st of August, 1866.

"XXVI. Any society or company, though exceeding six in number, carrying on the business of banking in London, or within sixty-five miles thereof, may draw, accept, or indorse bills of exchange, not being payable to bearer on demand.

"XXVII. The bank are to enjoy the privileges secured

by this Act, subject to redemption upon twelve months' notice, to be given after the 1st of August, 1855, and upon repayment of the public debt, and of all sums and arrears whatsoever owing to them by Government."

A searching inquiry will be found in a previous part of this work into the design, import, and effects of this much-debated Act.

We proceed to give a summary of the business operations of the bank, and of the changes which have taken place in its relations to Government and the public since the publication of the former editions of this work.

The Bank of England can now issue to the extent of £15,000,000 against that amount of securities set apart for this purpose. It can issue to any farther amount against lodgments of gold and silver, as regulated by the above Act. This amount of £15,000,000 may be issued either at the office in London or at the branches. Were the bank to reduce the number of its branches it would not be required to issue less than this £15,000,000; and were the bank to increase its branches, it could issue no more. If other banks discontinue their circulation, it may upon application receive permission to extend its issues to two-thirds the sum thus withdrawn; but all the profit of this increase must go to the Government. It cannot issue any note for a less amount than five pounds. All the notes are payable in gold on demand. The payment of those issued in London can be demanded only at the London office. But the payment of those issued at the branches may be demanded either at the London office or at the branches where they were respectively issued. Bank of England notes are a legal tender in all cases, except when tendered by the bank itself.

It will be observed that the issue against securities is now £15,000,000 as compared with £14,000,000 at the

time of the passing of the Act. The occasions and reasons for this increase have been lucidly set forth as follows in the "Bankers' Magazine" for March, 1866 :—

"The authorized issue of Bank of England notes based on Government securities, which was fixed at £14,000,000 by the Act of 1844, and which having been increased in 1855 and 1861 respectively, by the sums of £475,000 and £175,000, now stands at £14,650,000, is to be further augmented by £350,000, which will raise the total to £15,000,000. The process is in conformity with the provisions of the law, and is perfectly simple. The basis on which the amount of purely paper circulation was fixed at the date of Sir Robert Peel's measure was as follows :— Long experience has shown that whenever the note circulation of the country declined to a point approaching £22,000,000, through the contraction forced upon bankers by an adverse state of the foreign exchanges, the scarcity of currency was so felt in its action upon prices as to cause invariably a strong turn of the tide. That total of £22,000,000 was, therefore, fixed as the safe amount at which paper, secured only by the credit of the Government, might be allowed to pass as a legal tender, and was made up by £14,000,000 issued by the Bank of England, and £8,000,000 of issues of private and joint-stock banks in the provinces. At the same time a provision was made, that if any of the latter establishments should fail or withdraw from business, then in each such case the right of issuing notes should be forfeited; and that it should be competent for the Government, by an order in council, to authorize the Bank of England to supply the deficiency thus created.

"To effect that purpose, it would not be necessary for the bank to issue more than two-thirds of the amount of the circulation that had been forfeited, because it was taken

for granted that every issuing bank would keep at least a reserve of gold, equal to one-third of the notes it had issued payable on demand, and which might therefore be presented at any time; and that, consequently, the actual currency which each had put out was practically only two-thirds of its nominal amount, since to the extent of the remaining third, other currency—that is to say, gold—was withdrawn from use and locked up in their tills. Accordingly, the new issues of the Bank of England, in supplying the deficiencies from any such failures or withdrawals, were to be limited to two-thirds.

"Gradually, after the passing of the Act in 1844, individual country banks broke down or died out, but it was not till 1855 that the vacuum thus occasioned attracted much public attention. At that date it was found that issues had during the preceding eleven years been extinguished to the extent of £710,000, and an order in council was then put forth for an increase of £475,000 in the notes of the Bank of England. Between 1855 and 1861 further lapses occurred to the amount of £262,500, and these were made up by a new order in council for an additional issue of £175,000. Thus the total paper circulation of the bank was increased from its original sum of £14,000,000 to £14,650,000, the amount at which it stood up to Thursday last.

"The process by which the new issue is effected merely consists in the purchase of Government securities to the required amount. Stocks may be bought in the open market, or an advance made to Government on Exchequer bills. The gain from this investment in the present, as in the previous instances, after deducting the annual expense for the manufacture of the notes, &c., will be placed to the credit of the Government, the bank being only an agent in the business. The actual amount of the country circulation

that has lapsed since the last filling up took place in 1861, is £739,965, of which £442,000 was from a voluntary surrender on the part of the National Provincial Bank, when it determined to change its character from that of a country to a London bank. Two-thirds of this amount of £739,965 would be £493,310, but the present order is limited to £350,000, a circumstance for which no other reason can be conjectured than a desire to take the opportunity of fixing the Bank of England circulation at the symmetrical figure of £15,000,000.[1] The amount was included in the account published for the week ending 21st February."

The Bank of England is a bank of deposit, of loan, and of discount as well as of issue. It allows no interest on any portion of its deposits, nor permits any account to be overdrawn. It charges various rates on the bills it discounts, but does not often go below the rate it announces to be its minimum. It does not act as the London agent of country banks; but is the agent of the Bank of Ireland, and the Royal Bank of Scotland. It does not accept any bills that may be drawn by those banks, or by its own branches—they are all drawn without acceptance. It does not issue any circular notes on foreign countries, nor grant letters of credit on foreign banks. It remits money to and from its branches, and from one branch to another, and issues at the London office bank-post bills, drawn at seven or fourteen days after sight.

The profits of the bank are derived from its capital, its rest, public and private deposits, bank-post bills, its agencies, and its circulation. From these funds it makes investments in public securities and private securities.

[1] The authorized issue of the Bank of England of £15,000,000 was increased on the 1st April, 1881, by order in Council, by the sum of £750,000, under the clause in the Act of 1844 respecting lapsed issues as described above.

These bring dividends and interest. It also has a profit on the £15,750,000 of notes in circulation. This profit is the difference between the expense of maintaining the circulation, and the interest received on the securities set apart to meet this circulation. The bank has an annual payment from the Government for managing the National Debt. It also receives a commission from those banks to which it is the London agent. A profit is also supposed to be obtained on bullion transactions. Against these profits the bank has to place the expense of conducting the establishment, and the losses incurred by bad debts, forgeries, and unfortunate investments.

The Bank of England established branches in the year 1826, at the suggestion of Lord Liverpool, in order to extend to the provinces the advantage of a *secure* circulation. This was considered the grand desideratum at that time, in consequence of the numerous failures that had recently taken place among the country bankers; and was effected with the greater facility, in consequence of the establishment of joint-stock banks, who made arrangements for issuing Bank of England notes.

The branches being not merely banks of circulation, but of deposit, of discount, and of remittance, they came into competition with the country bankers. This, in some cases, reduced the charges previously made on banking transactions. As banks of discount, they charged the same rate which was charged at the London office—a charge usually below that of the country banks. As banks of remittance, they granted letters of credit at a shorter term. As banks of deposit, they charged no commission. But, on the other hand, they allowed no interest on the balance, and they allowed no account to be overdrawn; and they would not receive from their depositors any country

notes unless the banks had previously opened an account with them, and made a lodgment to meet their notes.

The branches are all subordinate to the parent establishment. They carry on the ordinary business of local banking, and of London banking as well, in addition to issuing bank notes and bills. Cash for their notes can be demanded only at the particular branch which has issued them, or in London. The accounts are balanced every night, and the balance transmitted to town daily, together with particulars of all the transactions of the day. One of the most important public services performed by the branches is the remittance of the revenue, which is paid into them by the collectors, and credit is then at once given to the exchequer account in London.

The bank has branches at Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Newcastle, Plymouth, Portsmouth, and one in London, called the West-end Branch.

It had originally branches at Exeter, Gloucester, Norwich, Swansea, and Leicester.

The branch at Exeter was closed May 1, 1834; the Gloucester branch on the 28th February, 1849; the Norwich branch, May 31, 1852; the Swansea branch on 28th February, 1859; and the Leicester branch on 29th February, 1872. The reasons assigned for withdrawing these branches do not appear very satisfactory. The Exeter branch was closed because another branch was opened on the same day at Plymouth, and the branch was said *to be removed* to Plymouth. The opening of a new branch at Plymouth seems to have no necessary connection with the closing of that at Exeter. The Gloucester branch was closed because a railway had been opened to Bristol, and the people of Gloucester might, if so disposed, transact their business with the Bristol branch. The distance be-

tween Gloucester and Bristol is about the same as that between Manchester and Liverpool; but the directors have never announced any intention of closing their branch at Manchester, upon the ground that there is a railway to Liverpool. The true reason we believe to be, that the business at these branches had not realized the anticipations of the directors. The active opposition of the private bank of Messrs. Sparkes & Co. (afterwards merged in the Devon and Cornwall Bank), prevented the Exeter branch obtaining much business. At one time the Gloucester Banking Company issued only the notes of the Gloucester branch, but afterwards they resumed the issue of their own notes, and hence, in 1843 and subsequent years, the circulation of this branch declined. The Norwich branch not only obtained but small business, but made large losses. It appears from parliamentary returns that so early as the year 1831, the bad debts at this branch amounted to £32,000. It may be remarked that three of the branches withdrawn were located in the centre of agricultural districts, and the most prosperous branches have been located in manufacturing and commercial towns, as Manchester, Liverpool, Birmingham, and Newcastle.

Here is another anomaly of the Act of 1844. The Bank of England is placed in a position in which it is its interest to withdraw some of its branches. At the same time, the banks of issue in the neighbourhood of those branches are not allowed to extend their issues so as to fill up the vacuum which is thus occasioned in the amount of the local circulation.

In addition to the management of the Government Funded Debt, which has always been conducted by the Bank of England, that corporation has of late years undertaken the management of the Government Unfunded

Debt, formerly managed by the Exchequer Office, of the Indian Debt, and of the Funded Debt of the Metropolitan Board of Works.

Pari passu with this increase of business, additional facilities have been afforded to the recipients of dividends of the various stocks by giving them the option of receiving their dividend warrants, by post, or at any of the branches of the Bank of England. The bank has also waived the charge of 1*s.* 6*d.* which it formerly made for preparing powers of attorney for the receipt of dividends.

In the Bullion Office an important modification has been made in the assay by which gold is bought and sold. Formerly, what was called the Trade Report was used, and the fineness of the gold was quoted to the $\frac{1}{8}$ of a carat grain, equal to $7\frac{1}{4}$ grains Troy, or the 768th part of the whole. This left a small profit to the bank on gold bullion imported by them into the Mint for the purposes of the coinage, since the Mint assayed much closer; whereas the assay now used at the bank determines to the $\frac{1}{3}$ of a millième, equivalent to the $\frac{1}{3000}$ part of the whole, and leaves no appreciable difference between the bank and the Mint assay.

The price at which light gold coin is bought by the bank has also been raised from £3 17*s.* $6\frac{1}{2}$*d.* per ounce to £3 17*s.* 9*d.*, the authorities of the Mint receiving this coin from the bank at £3 17*s.* $10\frac{1}{2}$*d.*, instead of requiring it to be remelted and reassayed, as was the practice previously. It is to be hoped that this change, which decreases the loss on light coins, will tend to induce bankers to withdraw them from circulation, and thus lend their aid to purge the gold currency, which is at present in a very unsatisfactory condition.

Under the Stock Certificates Act, 1863 (26 Vict. c. 28),

the bank issues stock certificates for consols, new 3 per cents., and reduced 3 per cent. annuities. These certificates are transferable by delivery; but the transfer may be restricted by the holder filling in his name, address, and quality, in a space provided for the purpose. These certificates are of the denominations of £50, £100, £200, £500, and £1000, and coupons are attached, payable to bearer, for the two half-yearly dividends due next after the date of issue.

The stockholder, when he desires to obtain certificates, transfers the stock in the Transfer Office in which the business of that particular stock is transacted, where he receives a certificate of the transfer, and this he exchanges in the Chief Cashier's Office for the stock certificate he requires.

When a holder of stock certificates wishes to have the stock they represent reinscribed, he delivers them up in the Chief Cashier's Office, and receives a certificate entitling him to have a corresponding amount of stock inscribed in his name in the Transfer Office of the stock.

The Government makes a charge of 2*s.* per cent. for the issue of certificates, and 1*s.* per certificate for reinscription.

Stock certificates for Metropolitan Consolidated $3\frac{1}{2}$ per cent. stock are issued in exactly the same terms as certificates for the Government Funds, and for corresponding amounts, with the exception that there are no certificates of £200.

Stock certificates for India 4 per cent. and 5 per cent. stock are issued for £100, £500, and £1000; but the transfer of these certificates cannot be restricted, and the charges are slightly different from those for the Government funds.

The Laws of the Currency with Reference to the Bank of England.—In March, 1841, I was, at the request of the joint-stock banks, examined as a witness before a Select Committee of the House of Commons, "appointed to inquire into the effects produced on the circulation of the country by the various banking establishments issuing notes payable on demand." The charge advanced at the time against the issuing joint-stock banks, and generally against all banks of issue, was, that they did not make the amount of their circulation correspond with the amount of the circulation of the Bank of England. With reference to this accusation, I laid before the committee a variety of tables, designed to show the laws which regulated the circulation of the Bank of England, of the country banks, and of the Banks of Ireland and of Scotland respectively. The inference was designed to show that no correspondence could exist between the circulation of these several banks. These tables cannot be introduced here. But the following is a summary of my evidence on this subject, taken from an article on "The Laws of the Currency," which I published in the "Foreign and Colonial Review" of April, 1844:—

"We have before us two reports from the Committee on Banks of Issue, laid before the House of Commons in the years 1840 and 1841. The committee report the evidence, and abstain from giving any opinion upon the great questions involved in the inquiry. They, however, recommended the passing of the Act 4 & 5 Vict. c. 50, requiring a monthly registry of the circulation of the Bank of England, and of the other banks of issue, with the amount of bullion, to be published in the 'Royal Gazette.' It may therefore be expected that, in a course of years, a sufficient number of facts will be recorded to enable future generations to form 'well-grounded opinions' on this important subject.

"In the meantime we will make use of the information we already possess. We will take the monthly returns of the circulation for the period that is past, that is, from September, 1833, to the end of 1843, and endeavour, by observing their various revolutions, to discover if they are governed by any fixed causes or principles—to ascertain if those principles are uniform in their operation; and if we should discover that the revolutions of the currency are regulated by any uniform principles, we shall call those principles the Laws of the Currency.

"We shall begin with that portion of the currency which consists of notes issued by the Bank of England. On looking over the monthly circulation of the Bank of England, given in the Table No. 34, in the Appendix to the Report of 1840, we observe, that the circulation of the months in which the public dividends are paid is higher than in the subsequent months. Thus, the average circulation of January is higher than that of February or March. The circulation of April is higher than that of May or June. The circulation of July is higher than that of August or September. And the circulation of October is higher than that of November or December. This, then, we may consider as one law of the circulation of the Bank of England—that it ebbs and flows four times in the year, in consequence of the payment of the quarterly dividends. This law does not apply to any other bank, as all the Government dividends are paid by the Bank of England.

"Again, the purchase and sale of Government stock and exchequer bills by the Bank of England affect the amount of her circulation. If the bank purchase Government stock or exchequer bills, she pays for them in her own notes, and thus increases her circulation. If, on the other hand, she sell Government stock or exchequer bills,

she receives payment in her own notes, and thus her circulation is diminished. Another law, then, and one peculiar to the Bank of England, is, that her circulation is affected by the purchases and sales of Government securities.

"As the payment of the public dividends puts into circulation the notes of the bank, the receipt of the public revenue will of course withdraw her notes from circulation. A large amount of the public revenue is paid at the latter part of the year, and this probably is the main cause why the amount of the Bank of England circulation is always the lowest in the month of December. Although the circulation ebbs and flows four times in the year, yet the December[1] point is always the lowest point throughout the year; and this is the case in every year, although the Bank of England is always open in December for short loans, the granting of which increases her circulation. This, then, is another law of the circulation.

"If the bank purchase bullion with her notes, that will of course increase her circulation; if she sell bullion, that will diminish her circulation: and, as the bank is always open for the purchase of bullion at a fixed price, and as gold may at all times be withdrawn from her in payment of her notes, her circulation is subject to considerable fluctuation from this cause. There is not, however, any uniform correspondence between the amount of her circulation[2] and the amount of her bullion; for when she pays the public dividends, she increases her notes, but diminishes

[1] There was an exception to this law in December, 1843, in consequence of the calling in of the light sovereigns.

[2] The word "circulation" means of course the amount of notes in the hands of the public. Since the passing of the Act of 1844 the word has been sometimes used in a more extended sense, so as to include also the notes in the banking department of the Bank of England.

her bullion; and when she receives the public revenue, as in December, her circulation is diminished, but the bullion is increased. These contrary fluctuations are occasioned by that portion of our currency which is under £5 consisting of the precious metals; but they do not impugn the law which states that the purchase of gold increases, and the sale of gold diminishes, the amount of her circulation.

"We have thus traced those peculiar laws which regulate the monthly revolutions of the circulation of the Bank of England. We shall now proceed to its annual revolutions.

"Any of the causes of the monthly fluctuations of the circulation of the Bank of England, if called into operation more in one year than in another, may become causes of annual fluctuations. But the most uniform and permanent cause of annual fluctuation appears to be made by the purchases and sales of bullion. The word 'bullion' in the bank returns, means gold and silver, whether coined or uncoined, and whether lying at the head office or at the branches. When the foreign exchanges are in favour of this country, bullion is imported and sold to the Bank of England; and when the exchanges are unfavourable, gold is exported, and the exporters obtain the gold from the Bank of England, either by purchase or by demanding payment of her notes. In most cases, however, the circulation does not fluctuate so much as the bullion. For when notes are issued against a large importation of bullion, money becomes abundant and cannot be employed, and hence it is lodged by bankers and others in the Bank of England, on deposit. But so long as the bank keeps her securities of the same amount, the increase of the bullion will always be about equal to the increase of the circulation and the deposits added together. And on the

other hand, when an adverse exchange draws bullion from the bank, the deposits decrease as well as the circulation: and the decrease in both together will be equal to the amount of gold withdrawn; that is, supposing the securities to remain the same.

"By 'securities' is meant Government stock, exchequer bills, loans, discounted bills, or anything else on which the bank may have advanced money. It is a principle of management by the bank to keep the total amount of their securities equal, or nearly so; and so long as this rule is acted upon, the tendency of exportations or importations of bullion to produce the variations we have described, must be considered as one of the laws of the circulation."

One Bank of Issue.—Mr. Cotton, who was the Governor of the Bank of England when the Act of 1844 was passed, stated in the evidence before a Committee of the House of Commons, in 1848, that the ultimate object of that Act was the establishment of one bank of issue.[1] I was examined on this subject before the Committee on Banks of Issue, in the year 1841. The following is a summary of my evidence:—

1. *If we had only one bank of issue we should have sometimes too much money and sometimes too little for the wants of trade.*—"I think it is one of the inconveniences of a metallic currency, and would, in fact, be one of the inconveniences of a sole bank of issue, that at one part of the year we should have too much money, and at another part too little; because, as money would not fluctuate in amount, and the demands of trade would fluctuate, the amount of money would not be proportionate throughout the year to the demands of trade." "I have shown, from Appendix 34, that even taking the whole circulation together,

[1] Commons, 4561.

there is a difference varying from two to four millions in the total amount of the circulation; and, therefore, after supposing all these transfers to have taken place, if they could have taken place at all, and that the surplus of one district was to supply the wants of another, still there would be a very great inequality in the amount of money, as compared with the demands of trade."

"It appears, from Appendix 34, that the total amount of notes in England, Scotland, and Ireland, varies very considerably in different months of the year. Supposing, then, that you had one bank, and that all the notes in circulation were the notes of that one bank, which did nothing but issue notes against gold, and gold against notes, how would you employ those notes which were not wanted in the slack periods of the season?" "It is evident, from Appendix 34, that during some part of the year there is not employment for the entire amount of money that is required in another season of the year; and if you had one bank of issue, as you could not contract the circulation, you would have a surplus circulation, which would have the effect of lowering the rate of interest, and promoting speculation."

2. *One bank of issue would reduce the means of the country bankers to afford assistance to their customers, and hence cause great distress, especially in the agricultural districts.*—"What would be the effect which you think it would produce upon country bankers?" "I think the banks, in the first place, having to pay off their notes, it would reduce their funds, from which they now give accommodation to their customers; and in order to find funds to pay off those notes, they would have to recall loans, and to reduce discounts to such a degree as to cause considerable distress throughout the country, and more especially in the agricultural districts."

3. *The bankers would be compelled to increase their charges.*—"What effects do you imagine would ensue when the measure had once been carried into effect?" "After the measure had once been carried into effect, the charges which the country bankers would be compelled to make upon that accommodation which they would still have the power of affording must be considerably increased."

"Why?" "Because they would then get no profit upon the notes; at present they can afford to advance money at a low rate of interest when issued in their own notes, because of the profit upon those notes. When I was in Ireland, I discounted bills at the same rate which was charged by the Bank of England here, and for the same reason, because I issued my own notes; but if the country bankers had to bring the money from a distance and lend it to their customers, they must get a greater interest from their customers than they could get by employing it in London or elsewhere, and hence they must make, either in the form of interest, or in the form of commission, heavier charges than they made before."

4. *One bank of issue would cause some of the smaller banking establishments to be discontinued.*—"The profit on the circulation being thus reduced, there would be a further effect by the limitation of banking establishments; for some of those establishments are so small, and established in places so remote, that they would scarcely pay the expense of conducting them, unless for the profits of the circulation; and yet the withdrawal of those establishments, though connected with no great profit to the bank, would be attended with very considerable loss and inconvenience to the inhabitants of those places, because those banks act as receivers of the surplus capital, and hence they are useful to persons who have money to place in those banks;

they act as discounters and granters of loans, and hence they are useful to the productive industry of the country; they are also useful as banks of remittance, for the purpose of making payments from those places elsewhere, and hence they are useful to traders; and those useful purposes, as far as many small banks are concerned, would be altogether annihilated if those establishments did not issue their own notes."

"In your opinion, the suppression of their circulation would render it necessary for them to charge a higher commission upon their operations, or a higher interest upon the loans which they make?" "With regard to those small establishments, I do not think any rate of commission could pay the expense: with regard to the larger establishments, you might make up for the deficiency of profit upon the circulation by an increased charge of commission; but with regard to small establishments, in remote places, the business is not sufficient, even with the charge of commission, to pay the expense without the profits of the circulation; annihilation of the circulation would lead to annihilation of the bank."

5. *One bank of issue would lead to the substitution of bills of exchange, or some other form of credit currency.*—"Do you conceive that it would have any effect upon what you have called the amount of the circulation, which in your opinion is required at different times of the year?" "I think it would have a considerable effect generally in the reduction of the circulation; because, if the circulation was issued by one single bank, the local bankers in the respective districts would have no interest in increasing the amount of that circulation, and hence, in places where it could be done, the bankers would most likely have recourse to a bill circulation, and they would substitute bills for the circulation of this one bank of issue. We

know that at Manchester and Liverpool, and in other places in that district, a bill circulation a short time ago was almost the entire circulation; and it was not till the Bank of England established branches in those places that the bill circulation became considerably reduced; and even then the bank obtained a circulation in those places only by offering their notes to country bankers at a reduced rate of interest. Now, if you had only one bank of issue, it is not to be supposed that the country bankers would obtain those notes at a reduced rate of interest, and consequently they would have no advantage in getting them into circulation; they would fall back upon their bill circulation, upon which they got a profit, and the amount of note circulation would, I think, be considerably reduced."

6. *With one bank of issue the reactions of the Foreign Exchanges would produce great and universal distress, and yet not accomplish that constant conformity between the London and country circulation which is sought to be attained.*—"Do you conceive that such a change as has been contemplated, namely, the abolition of country bank notes, would produce any effect upon the foreign exchanges?" "The effect upon the foreign exchanges would depend upon the principle upon which the single bank of issue was conducted. If conducted merely by issuing gold for notes and notes for gold, I consider that when the foreign exchanges were favourable, and brought in a large amount of gold, then there would be a large amount of notes put into circulation. I think that was the case in 1837 and 1838, although the Bank of England did not issue to such an extent as, upon the principle assumed, this one bank of issue would be compelled to do. I consider that thus this large amount of notes put into circulation against the importation of gold would reduce the rate of interest, would excite speculation, and lead to foreign investments; that a

reaction would then take place, and the amount of contraction would be very considerable, so as to produce very great distress."

"Now, whether you have different banks, or whether you have only one bank, if there is a certain amount of circulation in the country, and a certain amount in London, and the Bank of England, or the central bank, purchase a large amount of bullion in London, that immediately disturbs the proportion that existed between the London circulation and the country circulation; and, on the other hand, if there is a demand for bullion to go abroad, and bullion is sold at the central office, that will contract the circulation, and contract it much more than it could be immediately contracted in the country. If, therefore, the liability to a disproportion in amount between the country and the London circulation is a defect in the existing system, it is a defect which the establishment of only one bank of issue will not remedy."

7. *The establishment of one bank of issue would embarrass the fiscal operations of the Government.*—"I may now state, with reference to the payment of the public dividends, that the Bank of England advances loans in December, before the dividends are paid, which loans are discharged after the dividends are paid, and thus the fluctuation in the currency is very considerably diminished from what it otherwise would be. Now, if we had a bank that could not do this, if the currency were issued upon what have been called currency principles, then the Chancellor of the Exchequer must have the whole amount of the January dividends in his strong room before he could pay those dividends. Out of the circulation of England and Wales, consisting of about £28,000,000, you must collect eight millions and a half, and lock them up in the custody of the Government previously to the payment of the dividends;

then you pay out in a mass these eight millions and a half, and that in a state of contracted currency; and thus you go on, four times in the year, producing the most violent and most extravagant fluctuations: whereas now, by the excellent plan adopted by the Bank of England in issuing her notes before the payment of the dividends, by means of loans, which are discharged after the payment of the dividends, notwithstanding you pay eight millions and a half of dividends, you produce a fluctuation in the currency of only two millions and a half."

8. *The principle of one bank of issue cannot be applied to the various currencies of the United Kingdom.*—"What is the general conclusion which you propose to draw from the tables you have put in?" "The general conclusion I would draw is, that the Bank of England is governed by certain laws which do not apply to the country circulation; that the country circulation of England is also governed by laws peculiar to itself; that the circulation of Ireland is also governed by laws peculiar to itself; that the circulation of Scotland is also governed by laws peculiar to itself; that those respective circulations are all governed by uniform laws, as is shown by their arriving at nearly the same point at the same period of the year; and, therefore, that you cannot introduce any system by which all those various circulations, governed by different laws, can be amalgamated into one system; that such a system would be at variance with itself, and would tend to destroy that beautiful system of country banking which now exists in this country—a system which has tended very much to the prosperity of this country, which, by receiving the surplus capital of different districts, and giving out the capital for the encouragement of trade, calls forth all the natural resources of the country, and puts into motion the industry of the nation, and at the same time supplies a circulation which expands and contracts in each

district according as it is required by the trade or agriculture of the district. Those expansions or contractions take place at different periods of the year in different districts; the circulation expands when the wants of trade require it, and when no longer wanted it again returns; and I think this beautiful system, in the language of the resolutions passed by the deputies from the joint-stock banks, 'has greatly promoted the agriculture, trade, mining, and general industry of the nation, and that equal advantages cannot be produced by one bank of issue.'"

We shall conclude this section by copying the correspondence between the First Lord of the Treasury and the Chancellor of the Exchequer and the Bank of England respecting the suspension of the Act of 1844:—

"Downing Street, Oct. 25th, 1847.

"GENTLEMEN,

"Her Majesty's Government have seen with the deepest regret the pressure which has existed for some weeks upon the commercial interests of the country, and that this pressure has been aggravated by a want of that confidence which is necessary for carrying on the ordinary dealings of trade.

"They have been in hopes that the check given to dealings of a speculative character, the transfer of capital from other countries, the influx of bullion, and a feeling which the knowledge of these circumstances might have been expected to produce, would have removed the prevailing distrust.

"They were encouraged in this expectation by the speedy cessation of a similar state of feeling in the month of April last.

"These hopes have, however, been disappointed, and Her Majesty's Government have come to the conclusion that the time has arrived when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile and manufacturing community.

"For this purpose, they recommend to the Directors of the Bank of England in the present emergency to enlarge the amount of their discounts and advances upon approved security; but that in order to retain this operation within reasonable limits a high rate of interest should be charged.

"In present circumstances they would suggest that the rate of interest should not be less than eight per cent.

"If this course should lead to any infringement of the existing law, Her Majesty's Government will be prepared to propose to Parliament on its meeting a Bill of Indemnity. They will rely upon the discretion of the directors to reduce as soon as possible the amount of their notes if any extraordinary issue should take place, within the limits prescribed by law.

"Her Majesty's Government are of opinion that any extra profit derived from this measure should be carried to the account of the public, but the precise mode of doing so must be left to future arrangement.

"Her Majesty's Government are not insensible of the evil of any departure from the law which has placed the currency of this country upon a sound basis; but they feel confident that, in the present circumstances, the measure which they have proposed may be safely adopted, and at the same time the main provisions of that law, and the vital principle of preserving the convertibility of the bank note, may be firmly maintained.

"We have the honour to be, Gentlemen,
"Your obedient, humble Servants,
(Signed) "J. Russell.
"Charles Wood.

"The Governor and Deputy Governor
"of the Bank of England."

"Bank of England, Oct. 25th, 1847.

"GENTLEMEN,

"We have the honour to acknowledge your letter of this day's date, which we have submitted to the Court of Directors, and we enclose a copy of its Resolutions thereon.

"We have the honour to be, Gentlemen,

"Your most obedient Servants,

"JAMES MORRIS, Governor.

"H. J. PRESCOTT, Deputy Governor."

At a Court of Directors, at the Bank of England, Monday, October 25, 1847 :—

"Resolved—

"1. That this Court do accede to the recommendation contained in the letter from the First Lord of the Treasury and the Chancellor of the Exchequer, dated this day, and addressed to the Governor and Deputy Governor of the Bank of England, which has just been read.

"2. That the minimum rate of discount on bills not having more than ninety-five days to run be 8 per cent.

"3. That the advances be made on bills of exchange, on stock, exchequer bills, and other approved securities, in sums of not less than two thousand pounds, and for a period to be fixed by the Governors, at the rate of 8 per cent. per annum."

"Downing Street, Nov. 23rd, 1847.

"GENTLEMEN,

"Her Majesty's Government have watched with the deepest interest the gradual revival of confidence in the commercial classes of the country.

"They have the satisfaction of believing that the course

adopted by the Bank of England, on their recommendation, has contributed to produce this result, whilst it has led to no infringement of the law.

"It appears from the accounts which you have transmitted to us, that the Reserve of the Bank of England has been for some time steadily increasing, and now amounts to £5,000,000. This increase has in a great measure arisen from the return of notes and coin from the country.

"The bullion exceeds £10,000,000, and the state of the exchanges promises a further influx of the precious metals.

"The knowledge of these facts by the public is calculated to inspire still further confidence.

"In these circumstances it appears to Her Majesty's Government that the purpose which they had in view in the letter which we addressed to you on the 25th October has been fully answered, and that it is unnecessary to continue that letter any longer in force.

"We have the honour to be, Gentlemen,

"Your obedient, humble Servants,

(Signed) "J. Russell.

"Charles Wood.

"The Governor and Deputy Governor
of the Bank of England."

"Bank of England, Nov. 23rd, 1847.

"Gentlemen,

"We have the honour to acknowledge the receipt of your letter of this day's date, in which you communicate to us that in consequence of the gradual revival of confidence in the commercial classes of the country, it appears to Her Majesty's Government that the object they had in view in the letter they addressed to us on the 25th October

has been fully answered, and that it is unnecessary to continue that letter any longer in force.

"We have the honour to be, Gentlemen,
"Your most obedient Servants,
"James Morris, Governor.
"H. J. Prescott, Deputy Governor.

"To the First Lord of the Treasury and the
Chancellor of the Exchequer."

SECTION XXIX.

THE LONDON PRIVATE BANKERS.

BY the Bank Charter Act of 1844 (7 & 8 Vict. c. 32, s. 21), it was enacted "that every banker in England and Wales, who is now carrying on, or shall hereafter carry on business as such, shall, on the first day of January in each year, or within fifteen days thereafter, make a return to the Commissioners of Stamps and Taxes at their head office in London, of his name, residence, and occupation, or in the case of a company or partnership, of the name, residence, and occupation of every person composing or being a member of such company or partnership, and also the name of the firm under which such banking company or partnership carry on the business of banking, and of every place where such business is carried on; and if any such banker, company, or partnership, shall omit or refuse to make such return within fifteen days after the said first day of January, or shall wilfully make other than a true return of the persons as herein required, every banker, company, or partnership so offending, shall forfeit and pay the sum of £50; and the said Commissioners of Stamps and Taxes shall, on or before the first day of March in every year, publish in some newspaper circulating within each town or county respectively, a copy of the return so made by every banker, company, or partnership carrying on the business of bankers within such town, or county respectively, as the case may be."

This was the first time that any of the banking com-

panies in London were required to make returns to Government of the number or names of their partners. All banks that issued notes were required, when they applied for a licence, to name their partners; but as none of the London bankers issued notes, they required no licence, and made no return. Nor did the joint-stock banks established in London make any returns to the Government of their partners. For as they did not possess, until 1844, the power of suing and being sued in the name of their public officers, they did not register, at any Government office, the names of their partners, though, in some cases, these names were appended to the Annual Reports of the directors. This Act came into operation in January, 1845, and we have now, therefore, the means of obtaining the names of all the partners in all the banking establishments throughout England and Wales.[1]

The Act not only requires that the bankers shall make these returns between the first and fifteenth of January in each year, it requires also, that the Commissioners of Stamps and Taxes shall publish them before the first of March following, in some newspaper that circulates within the town or county in which the bankers making the return carry on their business. The returns from the London banks are published in supplements to the "London Gazette," which we presume is considered to be a newspaper within the meaning of the Act.

The particulars required to be returned by the Act, and stated in the "Gazette," are, the name of the firm or company; the name, residence, and occupation of the persons of whom the company or partnership consists; and the name of the place or places where the business is carried on.

The Clearing Banks are banks of deposit and of discount, and they act as agents to the country banks. The banks

[1] These are inserted every year in the Banking Almanac.

in Fleet Street and in Westminster do not usually discount bills for their customers, nor act as agents to country banks. Their connections embrace chiefly the clergy, the gentry, and the nobility. Their loans to their customers are chiefly upon landed security, and they are supposed to hold a large amount of exchequer bills and other Government securities. Few of the London private bankers allow interest on deposits, or charge commission on town accounts.

Those who act as agents to country banks charge a commission on the debit side of the account, and some of them allow interest on the daily balance. Instead of a *pro ratâ* commission, some country banks pay their agent by a fixed annual payment, or by keeping in his hands a certain balance without interest. None of the present London bankers have ever issued notes, though, until the year 1844, they had legally the power of doing so. Most of them issue "Circular Notes," for the use of travellers on the Continent.

The following is a summary of part of the evidence delivered before the Bank Committee of 1832, by George Carr Glyn, Esq., respecting the London bankers:—

"There are sixty-two private banks in the metropolis, none of which for the last fifty years have issued notes of their own, though it would seem that such of them as consist of fewer than six partners might lawfully circulate their own paper if they pleased. As they act entirely with the Bank of England paper, it is doubtful whether there be any limit to the number of partners of which London private banks may consist. They receive deposits, upon which they pay no interest. The system of allowing interest on deposits was formerly tried in London, but the houses that attempted it invariably failed. The deposits held by the London bankers are generally composed of very large sums, which are necessarily payable on demand;

and hence they cannot be made use of to the same extent as those which are entrusted to country bankers, and which, whenever interest is allowed, are usually left with them for a stipulated period. On the other hand, in all ordinary transactions, the London banks charge no commission to their customers.

"The London banks, in order to be able to meet their engagements, usually keep a large deposit, nearly equal, perhaps, to half of what they hold in reserve, in the Bank of England; a portion of their current funds they necessarily hold at home in bank paper, and a small amount in gold. Their deposit in the bank they consider as so many notes in their drawer, liable to be called out by the daily fluctuations in the accounts of their customers. The balances in their hands, often very large, are frequently withdrawn without notice; hence their intercourse is almost hourly with the Bank of England, from which they receive every facility.

"In order to turn their funds to profit, the London bankers employ as much money as they can amongst their customers. They invest a considerably larger proportion of their deposits in bills of exchange and promissory notes than in public securities. The city banker is, however, under a disadvantage in this respect, which is not felt by the banker at the west end of the town. The latter may, to a certain extent, depend upon the use of the money deposited with him, as his accounts are usually those of country gentlemen, and individuals out of trade; whereas the former, whose accounts are principally those of persons actively engaged in commercial or money operations, can hardly know three days beforehand what the amount of his deposits may be at any given period. The London bankers are obliged to employ their money occasionally at a very low rate of interest. In some cases, it may have

been within the last twelve months, $2\frac{1}{2}$ per cent.; but the average has been from 3 to $3\frac{1}{2}$, and it has fairly kept at that rate. The highest rate has been 4 for short bills, but 5 has been charged for bills of twelve or eighteen months."

The circumstances that attended the failure of Messrs. Strahan and Co. have called attention to the following section respecting bankers inserted in the Act 7 & 8 Geo. IV. c. 49.

"*Agents embezzling Money entrusted to them to be applied to any special Purpose; or embezzling any Goods or valuable Security entrusted to them for safe custody, or for any special Purpose, guilty of a Misdemeanour.*

"And, for the Punishment of Embezzlements committed by Agents entrusted with Property, be it enacted, That if any Money, or Security for the Payment of Money, shall be entrusted to any Banker, Merchant, Broker, Attorney, or other Agent, with any Direction in Writing to apply such Money, or any Part thereof, or the Proceeds or any part of the Proceeds of such Security, for any Purpose specified in such Direction, and he shall, in violation of good Faith, and contrary to the Purpose so specified, in anywise convert to his own Use or Benefit such Money, Security, or Proceeds, or any Part thereof respectively, every such Offender shall be guilty of a Misdemeanour, and being convicted thereof, shall be liable, at the Discretion of the Court, to be transported beyond the Seas for any Term not exceeding Fourteen Years nor less than Seven Years, or to suffer such other Punishment by Fine or Imprisonment, or by both, as the Court shall award; and if any Chattel or valuable Security, or any Power of Attorney for the Sale or Transfer of any Share or Interest in any Public Stock or Fund, whether of this Kingdom, or of *Great Britain* or of *Ireland*, or of any Foreign State, or

in any Fund of any Body Corporate, Company, or Society, shall be entrusted to any Banker, Merchant, Broker, Attorney, or other Agent, for safe Custody, or for any special Purpose, without any Authority to sell, negotiate, transfer, or pledge, and he shall, in violation of good Faith and contrary to the Object or Purpose for which such Chattel, Security, or Power of Attorney shall have been entrusted to him, sell, negotiate, transfer, pledge, or in any Manner convert to his own Use or Benefit such Chattel or Security, or the Proceeds of the same, or any Part thereof, or the Share or Interest in the Stock or Fund to which such Power of Attorney shall relate, or any Part thereof, every such Offender shall be guilty of a Misdemeanour, and, being convicted thereof, shall be liable, at the Discretion of the Court, to any of the Punishments which the Court may award, as hereinbefore last mentioned."

But it was said that the parties could escape punishment if they complied with the 52nd Section of the Act.

"Provided always, and be it enacted, That nothing in this Act contained, nor any Proceeding, Conviction, or Judgment to be had or taken thereupon, against any Banker, Merchant, Broker, Factor, Attorney, or other Agent as aforesaid, shall prevent, lessen, or impeach any Remedy at Law or in Equity which any Party aggrieved by any such Offence might or would have had if this Act had not been passed; but nevertheless the Conviction of any such Offender shall not be received in Evidence in any action at Law or Suit in Equity against him; *and no Banker, Merchant, Broker, Factor, Attorney, or other Agent as aforesaid, shall be liable to be convicted by any Evidence whatever as an offender against this Act, in respect of any Act done by him, if he shall at any Time previously to his being indicted for such Offence have disclosed such Act, on Oath, in consequence of any compulsory Process of any Court of Law or Equity in any Action, Suit, or Proceeding which*

shall have been bonâ fide instituted by any Party aggrieved, or if he shall have disclosed the same in any Examination or Deposition before any Commissioners of Bankruptcy."

Messrs. Strahan, Paul, and Bates stopped payment the 11th June, 1855. They were made bankrupts, and on the 25th June they voluntarily declared, in the Court of Bankruptcy, that securities amounting to £113,000, lodged with them by their customers for safe custody, had been sold or otherwise parted with, and the proceeds applied to their own use. They were committed for trial, and it was presumed they intended to plead the above clause in the Act, in the hope that it would save them from punishment.[1]

[1] Strahan, Paul, and Bates were tried at the October, 1855, session of the Central Criminal Court. They pleaded not guilty, and Sir F. Thesiger applied, on their behalf, to plead in addition 52nd sect. of 7 & 8 Geo. IV. c. 29. They were not allowed to plead it in addition; but the point, among others, was raised by Serjeant Byles in his address to the jury for Paul. It appeared that the statement made by the prisoners in the Bankruptcy Court (coupled with the account to which it referred) merely disclosed a dealing in April, 1855, with certain Danish Bonds which had been purchased by the prisoners in substitution for certain other similar bonds deposited with them by the prosecutor, and which they had previously converted, for which conversion of the original (not the substituted) bonds they were indicted, but that the statement also referred the assignees to certain of the firm's books, in which the conversion of the original bonds appeared. The presiding judge (Alderson), in summing up, ruled that the statement was an insufficient disclosure, in not relating to the original bonds, which were the subject matter of the indictment; and then continued:—"It never could have been intended that a person by voluntarily disclosing any act could evade the penalties of the misdemeanour to which such act had rendered him liable. People cannot thus be allowed to play fast and loose with the criminal law; now rendering themselves liable to be transported for fourteen years, and then, by a mere process got up for the purpose, voluntarily absolving themselves from the consequence of their acts."

Baron Martin and Justice Willes concurred

SECTION XXX.

LONDON JOINT-STOCK BANKS.

AS an introduction to the joint-stock banks of London, we avail ourselves of the following sketch of the history of joint-stock banking which we find in Mr. H. D. Macleod's elaborate and accurate work. We do this with the greater satisfaction on account of the testimony it bears, by implication, to the merits of the late Mr. Gilbart, and the "enormous difficulties" talent and energy such as his alone could have surmounted:—

"An attempt in 1823 to gain the consent of the Bank of England to give up the privileges of their Charter, so far as to permit joint-stock banks to be formed in the country, having failed, even though a bribe was offered, nothing further took place till 1826, when the disasters of the preceding year being very generally attributed to the improper management of the country banks, the Ministry were powerful enough to compel the Bank to give up its unjustifiable monopoly, and at length agreed to permit joint-stock banks to be formed beyond sixty-five miles from the metropolis. The Statute 1826, c. 46, was passed for this purpose.

"This Act made no provisions regarding the constitution or capital of these companies. Each one was allowed to devise a constitution for itself, to name its own capital, and to make any public announcement regarding it that it pleased. The formation of joint-stock banks under this Act proceeded very slowly at first, not more than four or

five being formed in as many years. In fact, such banks could only be successfully formed by influential persons, and, of course, each of these had already his own bank, which he would naturally be unwilling to injure by the formation of so powerful a rival. The first joint-stock bank was formed at Lancaster, the next at Bradford, and another at Norwich, before any one was formed at one of the great manufacturing towns. It was not till the prosperous years of 1833-34-35-36, that any very remarkable increase took place in their numbers. In these years, however, they multiplied rapidly, more especially in 1836, when upwards of forty were established in the spring.

"On the renewal of the Bank Charter in 1833, it was determined to take off the vexatious restriction of preventing banking companies making their bills and notes for less than £50, payable on demand by their agents in London. And they were required to keep weekly accounts, to be verified on oath, of the amount of their notes in circulation, and make a return to the Commissioners of Stamps of the average amount in circulation every quarter.

"It was at this time that the discovery made in 1822 by Mr. Joplin, that the Bank Charter did not prohibit joint-stock banks being formed in London, and carrying on their business on the method then adopted by the London bankers, attracted attention, and, on the case being submitted to the law officers of the Crown, they confirmed this view. The flank of the monopoly of the Bank of England, as we may say, being turned in this extraordinary and unexpected manner, excited much consternation and alarm in that body, and they requested to have this omission rectified, but Lord Althorp decidedly refused anything of the sort, and told them that the bargain was that their privileges should remain as they were, and he would not

consent to any extension of them. To remove all possible doubts on the subject, a declaratory clause was inserted in the Bank Charter Act, expressly permitting joint-stock banks to be formed, provided they did not borrow, or take up in England, any sum or sums of money, on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof. This declaratory clause was not long in being acted upon; and soon after the Act was passed, measures were taken to constitute a joint-stock bank in London. This was the London and Westminster Bank, which has since been managed with such distinguished success.

"The enormous difficulties which must have attended the successful organization of this great establishment may be conceived when we remember that it was not formed under the Joint-Stock Banking Act at all, which had no force within sixty-five miles of London, but that it was nothing but an ordinary partnership at common law. One of the least of the inconveniences of this was that it could not maintain an action at law for the most trivial debt, without enumerating all and each of the partners, and the slightest mistake in the spelling of a single name would at that time have vitiated any proceeding. This bank was the largest common law partnership which has existed in England; and all the London joint-stock banks which were formed before the Act, Statute 1844, c. 113, are nothing but common law partnerships. The excessive inconvenience attending this state of things led to a bill being brought into Parliament to enable the London and Westminster Bank to sue and be sued in the name of its chairman. This was warmly opposed by the Bank of England, and by Lord Althorp. Nothing could be more paltry than the reasons alleged by him in opposition to it, but he was beaten by a majority of 141 to 35. The

Government, however, had influence enough to have the bill thrown out in the Lords. The Bank being thus defeated, adopted the plan of making all contracts through the medium of trustees, and all the London joint-stock banks had to adopt this plan, till the Joint-Stock Banking Act of 1844. The other banks formed on a similar plan to the London and Westminster, are, the London Joint-Stock Bank, founded in 1836; the Union Bank, in 1839; the London and County Bank, in 1839; and the Commercial Bank, in 1840, which afterwards wound up its business.

"A question, however, of very great importance soon arose. It was a settled question that no partnership or corporation consisting of more than six persons could accept bills at any less date than six months, no matter whether they were a banking partnership or any other. It was clear, therefore, that the bank could not itself directly accept bills. But it did not appear that the words of the Act prohibited *trustees* accepting bills for a less date on behalf of the company. Nor, if trustees could accept, was there anything to prevent them accepting by procuration. Consequently, there appeared to be this method open of circumventing the monopoly of the Bank of England. On the 21st of February, 1835, the Bank of St. Albans drew a bill for £25 upon the London and Westminster Bank, payable 21 days after date; which, on the 23rd, was presented for acceptance at the London and Westminster Bank, and was accepted in the following form:—

Accepted,
At 36, Throgmorton-st., per procuration of
the trustees of the London and Westminster Bank,
J. W. GILBART, *Manager*.

"The Bank of England moved for an injunction to restrain the bank from accepting bills in this form, and the case having been argued, the Court of Common Pleas

held that it was an infraction of the Bank Charter Act of 1833, and the other Acts then in force respecting the Bank of England. Accordingly, the Master of the Rolls granted an injunction, restraining them from accepting bills at less than six months' date. The only result was, that the bank paid the bills drawn upon it without acceptance. The London and Westminster Bank being defeated in this manner, the London Joint-Stock entered the lists against the Bank of England in another form. It agreed with a bank in Canada, that the latter might draw upon Mr. George Pollard, who might accept in his own name, and the London Bank agreed to find the funds to meet Mr. Pollard's acceptances, and such transactions were to be matters of account between the two banks. Mr. Pollard was not a shareholder in the London Bank; but he was their manager, and the transaction was substantially an acceptance by the bank. The House of Lords, however, declared this ingenious device to be illegal, as it was merely doing indirectly what they were forbidden to do directly. Thus ended the attempts of the London joint-stock banks to free themselves from this monstrous oppression, from which they were not relieved till the Act of 1844.

"It was always held at common law that a man could not sue himself. Consequently, if the same individual was member of two partnerships, they could not go to law against each other. The consequence of this was, that no partnership could sue one of its members, or *vice versâ*, and if the same person had shares in two different banks, they could not have sued each other for any demands or debts. The Statute 1838, c. 96, was passed to remedy this anomalous state of matters. It enacted that a banking company might sue, or be sued, by any of its members, exactly as if they were separate individuals; and by the

Statute 1840, c. 111, this was extended to criminal cases, so that if a member of such a banking partnership steals or embezzles any property belonging to it, of any description, or shall commit any offence against it, he may be indicted, and convicted exactly as if he were a stranger.

"It being unlawful for spiritual persons to engage in any trading concerns, and such partnerships, of which any of its members were spiritual persons, being held to be void and illegal, it was suddenly found that most of the banking companies in England were illegal, and all their contracts void, because some of their shareholders were clergymen. The Act, Statute 1841, c. 14, was passed to remedy this, and declared that such partnerships should not be illegal and void; and that their contracts should not be illegal and void, although some of their shareholders were clergymen.

"When the impediments to the formation of joint-stock banks beyond sixty-five miles from London were removed in 1826, they were left perfectly free as to the provisions of their deeds of constitution, their nominal and their paid-up capital, and all the details of management, nor were they obliged to publish any accounts. The public, consequently, were perfectly in the dark as to the magnitude and position of the bank, because they might advertise that their nominal capital was £1,000,000, divided into any number of shares. But no one had any means of knowing how many of the shares were taken and paid upon. Consequently, although the capital of the bank might be advertised in the papers as £1,000,000, no one could tell whether it had *bonâ fide* £500 paid up.

"The first few joint-stock banks having been apparently successful, naturally turned speculation into that channel. Numbers of new banks were started in all parts of the country, and many private bankers, fearing that the com-

petition would be too powerful for them, united and formed themselves into joint-stock banks. The rapid growth of these establishments led to much mismanagement, and many disasters, as might have been expected, and Committees of the House of Commons were appointed to inquire into the subject in 1836-7 and 1840-1.

"The great abuses which were revealed in the course of these inquiries determined Sir Robert Peel, who was supposed to be the minister who *par excellence* understood banking, to bring in a bill to regulate the future constitution of these establishments. An Act, containing many elaborate provisions for this purpose, was accordingly passed, Statute 1844, c. 113. Fully admitting the enormous evils which this Act was intended to remedy, we will only say that a more unfortunate specimen of legislation, or one more entirely unsuitable to the nature of the business it related to, has not emanated from Parliament in recent times; and, being found to be an unmitigated nuisance, without any counterbalancing advantages, it was wholly repealed in 1857.

"We have already said that Sir Robert Peel's Joint-Stock Banking Act, Statute 1844, c. 113, was found to be wholly unsuitable for the purposes for which it was intended, and that it was totally repealed. This was done by the Act, Statute 1857, c. 49. The principal provisions of this Act are as follows:—

"I. Every company formed under the Acts, Statute 1844, c. 113, or the Statute 1845, c. 75, were to register themselves before the 1st January, 1858, under the said Act, under severe penalties.

"II. Any banking company, consisting of seven or more persons, having a capital of a fixed amount, divided into shares also of a fixed amount, and legally carrying on the business of banking before the passing of the Act, may

register itself under this Act, and then all provisions of any Act, letters patent, or deed of settlement constituting or regulating the company, as are inconsistent with the Joint-Stock Companies' Acts, 1856, 1857, or with the said Act, are thereby repealed in regard to that Company.

"III. The above Banking Acts were then repealed as to any future companies, and as to existing companies, as soon as they were registered under this Act.

"IV. Seven or more persons might register themselves as a company, other than a limited company, under this Act, provided the shares into which the capital of the company is divided are not less than £100 each.

"V. The number of partners permitted in a private bank is extended to ten.

"The question of admitting the principle of limited liability into commercial partnerships in this country has long been debated with much acrimony. The old theory of the law was expressed by Lord Eldon, who said that a man who entered into a commercial partnership, rendered himself liable 'to his last shilling and his last acre' for the debts of the company. And this, no doubt, was true, as far as regards ordinary private partnerships. But many great companies had been formed and incorporated, in which the privilege of limited liability was specially conferred upon them. A principle may be good when applied to ordinary traders, who are supposed all to take an active part in the business, and to be each and all parties to every transaction. But in the case of great companies it is rather different. In them the great majority of the partners are specially debarred from all knowledge of the real nature of the transactions, which are expressly left in the hands of a small committee. Now, as there are many great objects in commerce which can only be carried out by means of a great company, and it was obviously desirable

that they should be carried out, it has long been the practice in granting Acts to these companies to limit the liability of the shareholders. This was done in the case of the Bank of England itself; in railway and other companies; also, almost universally, in the charters granted to Colonial banks. But for a very long time the application of this principle to private partnerships in England was vehemently resisted. However, this resistance was overcome in 1855, and in that year an Act was passed, Statute 1855, c. 133, to permit the formation of joint-stock companies with limited liability. However, although the principle was conceded as to other companies, joint-stock banks were still most jealously excluded, on account of some unintelligible distinction between their trading and other trading. In the Joint-Stock Banking Act of 1857 this exclusion was still strictly maintained. But the terrible examples of the failures of joint-stock banks in 1857 at last compelled the Legislature to yield, and in 1858 an Act was passed to extend limited liability to banks.

"The chief provisions of this Act, Statute 1858, c. 91, are:—

"I. So much of the last mentioned Statute of 1857, as prevented banks being formed on the principle of limited liability, was repealed.

"II. All banks which issue promissory notes are subject to unlimited liability, as far as regards their notes, for which they are to be liable, in addition to the sum for which they are to be liable to the general creditors.

"III. Every existing banking company may register itself under this Act, upon giving thirty days' notice to each and all of its customers. Any customer to whom it may fail to send notice retaining his full rights as before.

"IV. All companies formed, or registering themselves, under this Act, must, on the 1st February and 1st August in each year, post up in a conspicuous place in its head office, and each branch, a statement of its liabilities and assets, made up in a form prescribed by the Act."

SECTION XXXI.

THE COUNTRY PRIVATE BANKS.

THESE banks cannot have more than ten partners. They are banks of deposit, of loan, and of discount. As banks of deposit they usually allow interest on both deposits and balances of current accounts, and charge a commission on the amount of the transactions. In commercial or manufacturing districts, their advances are usually made by way of discount; in agricultural districts, frequently by loans. They remit money by issuing bills or letters of credit on London, or they direct their agents to make payments to bankers or other parties resident in London. As banks of circulation, they have at various times occupied a large portion of public attention, and have been the subject of much legislation.

Those bankers who wish to issue notes, or unstamped bills of exchange, must take out a licence, which will cost £30, and must be renewed every year. They may re-issue any notes not above the value of £100 as often as they think proper. And should any of the firm die or remove from the business, the notes may be issued by the remaining partners. But they cannot be re-issued by a new firm which does not include any member belonging to the firm by whom the notes were first issued.

If the half of a note be lost or stolen, a banker cannot be compelled to give a new note in exchange for the remaining half. But if it can be proved that one half of a

note is burnt, or otherwise destroyed, then the holder may perhaps recover the note from the banker.

In such cases, the bankers always pay the value of the note on receiving a respectable indemnity.

Bankers may be compelled to pay whole notes that have been lost or stolen, provided the holder has given actual value for them.

The stamp duty on country notes is as follows:—

	£	s.		£	s.	s.	d.	
Notes not exceeding	1	0		.		0	5	each.
Exceeding .	1	0	and not exceeding	2	0	0	10	„
Ditto . .	2	0	„ „	5	0	1	3	„
Ditto . .	5	0	„ „	10	0	1	9	„
Ditto . .	10	0	„ „	20	0	2	0	„
Ditto . .	20	0	„ „	30	0	3	0	„
Ditto . .	30	0	„ „	50	0	5	0	„
Ditto . .	50	0	„ „	100	0	8	6	„

Country banks are allowed to compound for the stamp duties on their notes, at the rate of three shillings and sixpence per cent. upon the half-yearly amount in circulation, and to include, on the same terms, their bills drawn on London at twenty-one days after date. But whether a country banker compounds for the stamp duties or not, he must make a return to the Government of the amount of his notes in circulation every Saturday night. These returns are consolidated, and the result published in the "London Gazette."

I am not aware that we have any authentic details of the rise and progress of country banking in England. It is generally understood that very few country banks existed previous to the American war—that they rapidly increased after the termination of that war—that they received a severe check in the year 1793, when twenty-two became bankrupt, and that they increased with wonderful rapidity

after the passing of the Bank Restriction Act. Since the year 1808 every bank that issues notes has been compelled to take out an annual licence—and since 1804, the notes have been subject to a stamp duty. This duty was increased in 1808, and again in 1815.

In the year 1775 bankers were prohibited by Act of Parliament to issue notes of a less amount than 20*s*. And in 1777 they were prohibited to issue notes of a less amount than £5. But after the passing of the Bank Restriction Act in 1797, the last restriction was removed, and the country banks commenced issuing notes of £1 and £2. And in 1822 the permission to issue such notes was continued until the expiration of the Bank Charter in 1833. But after the memorable panic of 1825, the Government refused to issue any more stamps for notes under £5, and it was enacted that all such notes already stamped should cease to be issued by the bankers after the year 1829.

The speculations that preceded the panic of 1825 were attributed by the Government of the day to a wild spirit of speculation fostered by the country banks. To guard against the recurrence of similar evils, not only were notes under £5 abolished, but two other measures were introduced. Banks of issue, consisting of more than six partners, were permitted to be formed at a greater distance than sixty-five miles from London; and the Bank of England was induced to open branches in the provinces.

And here it will be proper to notice a peculiarity in the county of Lancaster, and particularly in Manchester and Liverpool. In these places there were no country notes, and but a small proportion of Bank of England notes. The circulation consisted mainly of bills of exchange, which passed from hand to hand like bank notes, having the endorsement of all the parties through whose hands they had passed. In Liverpool large notes were required to pay the

duties at the Custom House; and in Manchester small notes were required to pay wages. These were obtained from the Bank of England in London: but the transactions between manufacturers and dealers were transacted by bills of exchange; and as these bills were all made payable in London, bank notes were not required in Manchester and Liverpool, even for the payment of these bills.

The measures adopted by the Legislature in the year 1826 led to the establishment of branches of the Bank of England in Manchester and Liverpool. From this period the circulation of bills of exchange declined, and was superseded by Bank of England notes. This was accelerated by the circumstance that the joint-stock banks formed in these places did not issue their own notes, but those of the Bank of England. This establishment had offered to discount for the joint-stock banks at 1 per cent. less than they charged to the public, and the joint-stock banks thought it more for their interest to obtain the notes of the Bank of England on these terms than to issue notes of their own. The circulation of the country now consisted of notes of the branches of the Bank of England, notes of the joint-stock banks, and notes of the private bankers; and as many of the weak private banks had ceased to exist, and as others had merged into joint-stock banks, and as all notes under £5 were abolished, it was supposed that the country had now obtained the advantage of a secure circulation.

But in the latter end of the year 1836 another panic arrived, when it was discovered that the country circulation was again at fault. But the charge now was, not that it was unsafe, but that it was excessive; and this charge of having issued to excess was more especially directed against the joint-stock banks.

Here it may be observed, that in the panic of 1825 the amount of country notes in circulation was unknown. No returns at that time were made to the Government, and the amount of notes in circulation could only be calculated, and that very imperfectly, from the number of stamps, of different denominations, issued from the Stamp Office. But in the year 1833, the Chancellor of the Exchequer, Lord Althorp, obtained an Act (3 & 4 William IV. c. 83) which required all banks issuing promissory notes to make returns to the Stamp Office of the average amounts of notes in circulation in the quarters ending the first day of January, April, July, and October in each year. The quarterly average was to be formed from the amount in circulation at the end of each week. These quarterly returns were afterwards published in the "London Gazette."

From these returns it was evident that the country circulation had increased by the beginning of the year 1836; and as a general spirit of speculation prevailed at the same time, it was inferred that the country circulation was the cause of this speculation; and as by the end of the year the speculations had ended in panic, the country circulation was the cause of this panic.

Another panic occurred at the end of the year 1839, and here, again, blame was cast on the country notes. But the complaint now was not that the country circulation was unsafe or excessive, but that it was ill-regulated. An opinion had been adopted by some distinguished political economists that the country circulation, as well as that of the Bank of England, ought to correspond at all times with the amount of gold in the Bank of England. It is true that the circulation of the Bank of England did not fluctuate in exact accordance with this amount of gold; but the country circulation did not correspond even with that of the Bank of England. And as the fluctuations in

the country circulation did not correspond with the fluctuations either of the gold of the Bank of England or with the notes of the Bank of England, it was assumed that the country circulation was ill-regulated; and, being ill-regulated, it was assumed to be the cause, or at least one cause, of the panic that occurred at the end of the year 1839.

To examine into the truth of these opinions, a Committee of the House of Commons was appointed in the year 1840, to consider the state of the law with reference to Banks of Issue. The Committee examined witnesses during the sessions of 1840 and 1841; but the only practical result was that an Act was passed requiring weekly returns of their circulation from every bank of issue.[1]

Before proceeding farther, it may be fair to state the replies which the country bankers at various times gave to these severe accusations.

In reply to the charge that the currency was unsafe, from the number of failures which occurred among the country banks of issue, they state in their memorial to Earl Grey, in the year 1833, "the number of London bankers that have failed is believed to be relatively greater, and the amount of their debts relatively larger, than that of country banks."

In reply to the charge that they had by an excessive issue of their notes promoted speculation, they state:—

"All experience shows that great fluctuations have originated in the speculations of influential merchants, and never originated in the channels to which the issues of country bankers are confined; their source is in great mercantile cities, and they are promoted by the issues of the Bank of England. That this is the invariable course which fluctuations resulting in excess and derangement

[1] 4 & 5 Victoria, c. 50.

take, is proved by the evidence of Mr. Ward and others, before the Bank Charter Committee, and is fully explained by the speeches of the King's Ministers in the year 1826. The debts of a few speculative merchants who failed in a single year in the town of Liverpool, where country bankers' notes never circulated, amounted to between seven and eight millions sterling, and their bills were either lodged in the Bank of England for loans, or were current in all parts of the country, stimulating circulation and promoting excess."

In reply to the charge that they had turned the foreign exchanges against this country, they reply :—

"Your memorialists are prepared to prove that the issues of country bankers have less tendency to promote fluctuations in the country than those of the Bank of England; and that their effect in throwing the exchanges against the country is comparatively insignificant. The slightest attention to facts would indicate the truth of these positions. It has been established by parliamentary evidence that the issues of country bankers fluctuated much less between the years 1817 and 1826 than those of the Bank of England; and it is indisputable that adverse exchanges, which endanger the bank, always succeed great importations of foreign produce, and that they never can be occasioned by large exportations of domestic productions. Now, it is notorious that the circulation of country bankers acts almost exclusively in promoting these productions: and that, when it is in an extended state, the direct and proper influence, even of an alleged excess of that circulation, would be to provide the means of paying for the importations of foreign produce, without causing so great an export of gold as to derange and endanger the monetary system of the country."

In reply to the charge that they had not governed their

issues of notes by the foreign exchanges, they reply that such a system is not applicable to the nature of a local circulation.

Then with respect to miners and manufacturers, any system which would bring them into immediate contact with the operation of the bank for regulating the foreign exchanges, without that protection and defence from those convulsive changes which the local circulation afford, would be a system pregnant with indescribable hazard.

Such was the state of the currency question when the late Sir Robert Peel came into office in the year 1841. The charter of the Bank of England was subject to renewal in the year 1844, and in that year was passed an Act of Parliament "to regulate the issue of bank notes, and for giving to the governor and company of the Bank of England certain privileges for a limited period."

The Act of 1844.

The charges against the country circulation had been that it was unsafe, excessive, and ill-regulated. The Act of 1844 dealt chiefly with the second of these accusations.

According to the provisions of this Act no new bank of issue was permitted to be established in the United Kingdom, and the maximum amount of notes which each existing bank of issue might issue upon an average of four weeks, should, after the 10th October, 1844, be the average amount of the notes in circulation during the twelve weeks ending the 27th April, 1844; that returns should be made to Government of the average amount of notes in circulation during each week; and if, upon an average of four weeks, the amount in circulation exceeded the authorized amount, the bank should be subject to a penalty

equal to the amount of that excess. That if any existing bank, not having more than six partners, should increase the number of partners to more than six, it should lose the privilege of issue. That if any two banks should unite so as to increase their number beyond six, they should lose the right of issue. And if any banker should become bankrupt, or cease to carry on the business of a banker, or cease to issue notes, it should not be lawful for such banker at any time thereafter to issue any such notes.

The charge of being unsafe the Act did not meddle with,—except so far as limiting the issues of each bank, and prohibiting any new bank of issue, may be regarded as elements of safety. But the Act of 1844 left the country circulation still unregulated by the amount of gold in the Bank of England. In the month of October, 1844, when the Act came into operation, the amount of gold in the Bank of England was £12,149,367. On the 23rd October, 1847, the amount of gold was £6,745,354, but the law required no corresponding reduction in the amount of the country circulation. On the 10th July, 1852, the gold had advanced to £21,845,390, but the law permitted to the country circulation no corresponding expansion. It does not, therefore, appear to have been the object of the Act that the country bankers should regulate their issues by the amount of gold in the Bank of England.

The maximum was the average of the twelve weeks ending 27th April, 1844, but there seems to be no reason why this period should have been chosen. Sir Robert Peel originally proposed that the maximum should be the average of the previous two years. The private bankers asked for the average of the previous five years. The joint-stock banks asked for the *maximum* of the two years, contending, that if an average were made a maximum, the circulation would be still further reduced. Sir Robert Peel ultimately

determined on the average of the twelve weeks previous to the announcement of the measures to Parliament. The respective amounts are as follows :—

	Private Banks.	Joint-Stock Banks.
	£	£
Average of the two years . .	4,916,494	3,061,562
Average of the five years . .	5,761,792	3,485,329
Maximum of the two years . .	5,295,239	3,752,867
Average of the twelve weeks as ultimately certified	5,153,407	3,495,446

The private banks were at that time 205, and the joint-stock banks 72.

The enactments of the Act of 1844 affecting the country bankers are contained in clauses 10 to 22 inclusive. These clauses respectively enact that there shall be no new bank of issue; that there shall be restrictions against issue of bank notes; that bankers ceasing to issue notes may not resume; that existing banks of issue may continue under certain limitations; a provision for united banks; that a duplicate of the certificate to be given by the commissioners of stamps and taxes to issuing bankers, certifying the limit to which they may issue, shall be published in the "Gazette," and that the "Gazette" shall be conclusive evidence of such limit; that in case banks become united, the commissioners shall certify the amount of bank notes which each bank was authorized to issue; a penalty on banks issuing in excess; that issuing banks shall render accounts; the mode of ascertaining the average amount of bank notes of each banker in circulation during the first four weeks after the 10th October, 1844; empowers commissioners of stamps and taxes to cause bankers' books, containing accounts of notes in circulation, to be inspected, and imposes penalty on bankers for refusing to allow such inspection; that all bankers shall return their names once

a year to the Stamp Office; that all bankers liable shall take out a separate licence for every place at which they issue notes or bills, with a proviso in favour of bankers who had four such licences in force on the 6th of May, 1844.

The clauses, of which the foregoing are the headings, will be found in the Act of 1844, which may be obtained at any time from Messrs. Spottiswoode & Co., London, and from a careful perusal of them it will be seen that the provisions of the Act require—

1. That no new bank of issue shall be established in the United Kingdom.

2. That the *maximum* of each bank of issue in England shall be the *average* of the notes in circulation during the four weeks ending the 27th April, 1844.

3. That if any bank having not more than six partners should exceed that number, it would lose its issue. This tends to prevent private banks merging into joint-stock banks.

4. That no union can take place between a joint-stock bank and a private bank, or between two joint-stock banks of issue, without one of them at least losing its circulation.

5. Every new branch at which notes shall be issued must take out a separate licence. Hitherto no bank had been obliged to take out more than four licences, however numerous its branches. This tends to check the opening of new branches of issue.

It has been stated that the object of this Act was to pave the way for the establishment of one bank of issue. These provisions are certainly not ill-adapted for such an end. They will reduce the amount of the country circulation; they will produce other ill effects; the formation of large banks will be retarded. In some places it would

be for the public advantage that a private bank should become a joint-stock bank. In other districts it might be desirable that two small joint-stock banks of issue should unite and form a large one. The restrictions imposed by this Act will tend to prevent such unions. Perhaps, in other respects, its effects may be beneficial; it may lead a larger number of persons to keep current accounts with bankers, and to make their payments with cheques. A smaller amount of notes will then be necessary for the purposes of the country. The advantages of having a banker will be extended to the middle and lower classes, and will not as much as heretofore be confined to the wealthy. The Act, too, may have the effect of exempting the banks of issue from those accusations to which they have always been subjected on the occurrence of any national calamity. The whole Act of 1844 is formed upon the notion that the country bankers can extend their issues as much as they please—an error that has over and over again been abundantly refuted. Yet had the bill not been passed, and had the country circulation increased a million or two, as possibly it might from the increased transactions of the country, the railway speculations of 1845 and 1846 would doubtless have been ascribed to the excessive issues of the country banks. The following language, which I addressed in 1844 to the joint-stock banks, may not be considered inapplicable to all banks of issue:—

"Another advantage is, that the joint-stock banks of issue will be delivered from those unjust accusations to which they have hitherto been exposed. Almost every evil that has befallen the country for the last ten years has been ascribed by different writers to the reckless issues of the joint-stock banks; and though the charge has been oft refuted, yet such has been the talent, zeal, and

perseverance with which it has been revived, that it has doubtless in some degree prejudiced the public mind. But now this charge can be made no more. Our assailants are compelled to observe at least a ten years' truce. During this period we shall have no bank directors publishing pamphlets to show that their efforts to regulate the exchanges have been counteracted by the imprudent issues of the joint-stock banks. Our notes will not again be classed by the authors of 'prize essays' among the causes of national distress, and philosophical writers will no longer declaim, in eloquent metaphor, against 'the wild democracy of rival issuers.' It is no small matter to be put into a position wherein we shall be sheltered from the peltings of unjust accusations."

The other sections of the Act having special reference to country bankers are 23 to 25 inclusive, which provide for compensation to certain bankers named in Schedule C, for having ceased to issue their own notes under certain agreements with the Bank of England; for the Bank of England being allowed to compound with issuing banks in addition to those named in Schedule C; and that such compositions shall cease on the 1st August, 1856.

The Laws of the Currency with reference to the Country Banks.

These are thus stated in the article previously quoted in the "Foreign and Colonial Review" of April, 1844:—

"It will readily occur to every reader, that the laws which regulate the circulation of these country banks must be different from those which regulate the London circulation of the Bank of England. They do not pay

the public dividends; they cannot issue their notes in purchasing bullion, or Government stock, or Exchequer bills, as all these operations take place in London, where their notes do not circulate. They are also subject to certain restrictive laws to which the notes of the Bank of England are not subject. Their notes are not only legally payable on demand, but payment is constantly demanded; while no one demands payment of a Bank of England note, unless he has occasion to export the gold. There is also a system of exchanges between country bankers, by which all notes that are paid into any of the banks are immediately brought back for payment to the banks that issue them. It is the practice, too, throughout the country, to allow interest on deposits; and thus all notes not required for the actual wants of the community are promptly withdrawn from circulation, and lodged with a bank upon interest.

"On inspecting the monthly returns of the country circulation for the last ten years, we find that the highest amount is in the month of April; thence it descends, and arrives at the lowest point by the end of August, which is the lowest point in the year. It gradually increases to November; a slight reaction takes place in December; but it then advances, until it reaches the highest point in April. The general law is, that the country circulation always makes one circuit in the year—being at its lowest point in August, and advancing to December, and continuing to advance to its highest point to the month of April, and then again descending to its lowest point in August.

"The laws which regulate the circulation of the country banks are derived from the state of trade in the respective districts in which the banks are established. As these banks are chiefly located in agricultural districts, the

operations of agriculture have a very considerable influence in their regulation. Hence the advance in the spring, and the advance again after August, in consequence of the harvest. It is clear that the laws must be uniform in their operation, because the fluctuations of circulation in each year are uniform, and constantly recur with the return of the season. The slight reaction in December is probably occasioned by the collection of the public revenues and of landlords' rents in the country districts, and the general dulness of trade in that month.

"It may also be observed, that the issues of the joint-stock banks, and of the private banks, are subject to the same laws. The issues of both classes of banks rise together and fall together, and they have maintained nearly the same *relative* amount during the last seven years.

"The laws which regulate the annual fluctuations of the country circulation, that is, which determine the variations in the amounts of the country circulation, not within the year, but taking corresponding periods of different years, are also dependent on the state of trade in those years. If there be an increase of trade without an increase of prices, more notes will be required to circulate the increased quantity of commodities. If there be an increase of commodities, and also an advance of prices, a still larger amount of notes would be required. There are also other circumstances that may permanently affect the amount of the country circulation."

Principles of the Country Circulation.

I cannot better state my own views of the principles of the country circulation, than by transcribing a portion

of my evidence given before the Committee on Banks of Issue, in March, 1841, when examined by Sir Robert Peel:—

"*Sir Robert Peel.*—Would you recommend that the paper thus issued should be convertible into gold at the will of the holder?—Yes.

"You think that is an absolutely necessary check against excessive issues?—I think it is a necessary check.

"What reference is made in the issue of paper to the quantity of gold in the country, and to the ultimate ability of the parties to discharge their paper engagements in gold?—The bankers in issuing their notes do not make any reference to the quantity of gold in the country, but they make reference to their ability to discharge those notes when returned to them for payment.

"What is the nature of the reference which they make?—By keeping securities available for the purpose of being sold, in order to discharge those notes whenever presented to them for payment.

"They have no reference whatever to the state of the exchanges?—No: when I say no, I mean not with the view of regulating the amount of notes by the exchanges; but bankers, whether banks of issue or not, notice the exchanges as naturally as they would notice the prices of the funds, in order that they may be able to judge as to the future value of money, so as to exercise their discretion with reference to their investments.

"They do not notice the state of the exchanges with a view to determine the policy of contracting or increasing their issues?—No; not with a view of making the amount of their issues correspond. If they see that the exchange is likely to become unfavourable, bankers will naturally be more cautious in making advances, and more cautious of coming under engagements, than they would be when they

found that the exchanges were favourable; but there is no intention on the part of the country banks to make their notes correspond with the amount of the bullion in the Bank of England.

"A country banker would rely upon the sale of his securities, and that only in case of a demand for gold?—In case of a general run, he would depend upon the stock he had in hand, and the further stock he might realize by a sale of securities.

"If all parties continued to issue, none of them having reference to the state of the exchanges, but relying upon the available resources which a sale of securities might supply, do not you think that there might be a danger of a sudden demand for gold, and of an inability on the part of those issuers to discharge their engagements in gold?—I do not think there would be any danger of that at all, because each bank would take care of itself. If you suppose that the whole circulation of the country comes in at once and demands gold, it is quite clear that gold cannot be found to pay it off, and that is equally the case with the Bank of England and any other bank, and it is equally the case with us who are banks of deposits. If all the depositors were to come together at the same time and require their deposits, we should be unable to pay them; but we could realize our securities, and pay them off, if they were to come gradually.

"Suppose there was one bank which had the charge of the paper circulation of the country, and had the means, therefore, by constant reference to the state of the exchanges, of determining the amount of the paper circulation, do not you think that there would be a greater security against a sudden demand for gold, and an inability to pay that gold, than there is when there are a great many issuers, none of whom, according to your own statement,

pay the slightest regard to the state of the exchanges?—No, I think not.

"What then supplies the check?—The check upon the private bankers is, that their circulation cannot be issued to excess; whereas if you had a bank which should issue notes for so much gold, then every time there was a favourable course of exchange, there would be a large issue of notes, which notes would necessarily reduce the rate of interest, lead to speculation, and turn the exchanges again by causing investments to be made in foreign countries. Now, as issues are at present conducted, bankers are under several checks which would not apply to such a bank. For instance, the check of the interchange with each other of their different notes once or twice a week, and the check of having their notes payable on demand; whereas the notes of such a bank as you suppose would not be diminished except when gold was wanted to be sent abroad. Another check is the practice of giving interest upon deposits, by which all the surplus circulation is called in and lodged with the banks. Now, such a bank as you have supposed would not be under the control of those checks, and it would be under the necessity of increasing the circulation whenever the exchange became favourable; and we know by experience, that the most sure way of making the exchanges unfavourable is a previous excessive issue; that previous excessive issue would necessarily arise, on the principle you have supposed, every time the exchange was favourable.

"You think that there is some cause in operation which applies equally to all issuers of paper, and prevents any undue issue of paper, and dispenses with the necessity of any reference on the part of each issuer to the state of the exchanges?—That is the case with all country issuers of paper. With regard to the Bank of England, who have

the power of issuing their notes in exchange against bullion, in the purchase of Exchequer bills and Government stock, it is quite clear that notes put into operation in that way, being thrown in a mass upon the previously existing state of trade, will have the effect of raising prices and reducing interest, and turn the exchanges; but if notes are issued merely to pay for transactions that have previously taken place, and are drawn out by the operations of trade, those notes will have no such effect.

"Supposing, at present, the Bank of England observed that the exchanges continued unfavourable for a long period, and that there was a progressive diminution in the amount of their bullion, and supposing that they saw that in the course of two years their bullion was reduced from ten millions to four millions; do you think it would be desirable that the Bank of England should take any step whatever to guard against the ultimate consequences of that state of things by restricting the paper circulation?—I think such a case may occur, but I think in ordinary times the Bank of England might hold foreign securities, by which they would bring back gold to this country, and thus prevent any necessity for a contraction of the circulation. At the same time, I do not at all question the possibility of such a case occurring as may render a contraction necessary; nor do I at all question the influence of a contraction to have some effect upon the exchanges; but I contend that, as an ordinary principle of action, the bank ought not to expand their circulation, so as to cause the exchanges to be unfavourable, nor calculate upon a contraction of the circulation for the purpose of remedying the exchanges.

"Then you do think that the expansion of the circulation of the Bank of England may cause unfavourable exchanges?—Yes.

"Why should not the expansion of the circulation on the part of the country issuers produce the same effect?—Because the country circulation is under checks, whereas the Bank of England circulation is not; the country circulation can be issued only in consequence of transactions which have taken place, and to the extent only required by the wants of the district; whereas it is obvious that the Bank of England has the power of increasing the circulation by the purchase of Exchequer bills or stock, or by purchasing bullion, and throwing a mass of notes on the market when the state of trade does not require them."

"*Chairman.*—Have you any further observations to make to the committee?—When the first question was asked of me, at the commencement of my examination, I stated that I appeared before the committee as the representative of the joint-stock banks, and that, therefore, in expressing any opinions consistently with the resolutions which they had passed, I wished to be considered as speaking the sentiments of the joint-stock banks; but, should the committee ask me any question not connected with the circumstances of country issues, that I wished to be considered as speaking my own individual opinions. The points upon which I wished to be considered as speaking the sentiments of the joint-stock banks are as follows: I speak the opinions of the joint-stock banks in saying that their circulation cannot be made to fluctuate in exact conformity with the circulation of the Bank of England, or with the stock of gold in the Bank of England; that the country issue is drawn out by the demands of trade, and is subject to checks to which the circulation of the Bank of England is not liable; that the country bankers have not the power of issuing their notes to excess; that they cannot contract their circulation or expand it as they please;

and also, that the country circulation does not influence the prices of commodities, and that it cannot be regulated by the principles of the foreign exchanges. I speak the opinions of the joint-stock banks when I say, that the abolition of the country circulation would cause very considerable distress; would limit the power of the country banks to grant the same accommodation to their customers; would compel many of their customers to sell their property, thus lessening the value of real property; that country bankers would be compelled to increase their charges to their customers; and, in some cases, that those banking establishments would be altogether abolished. in consequence of not being able to supply sufficient profit for carrying them on; that, in some other cases, however the country circulation might be substituted or superseded by a bill circulation, nevertheless considerable distress would exist throughout the country, and that not only country banks themselves, but their customers and the public in general, would be subject to very considerable loss and inconvenience. In other opinions which I have expressed with regard to the regulation of the currency, and the principles upon which the Bank of England ought to be managed; also, as regards the extracts which have been made from my own works, and other matters I need not particularly specify, I wish to be understood as giving my own opinions, without saying whether those opinions do or do not meet the concurrence of the joint-stock bankers. I take the responsibility of these entirely upon myself."

Notes under Five Pounds.

The most important circumstance in which the banks of Scotland and Ireland differ from those of England, is in their power to issue notes under £5. That portion of our

currency in England which is under £5 consists of gold and silver coin. And it may, under present circumstances, be worth while to inquire—suppose we should have a protracted war, and be compelled to export our gold, either to subsidize foreign powers, or to maintain our fleets and armies abroad, what additional supply of gold could we obtain by means of issuing £1 notes? I do not think we can get any certain reply to this question; but there are some inquiries that may assist our reasonings on the subject. First, we may inquire, when the Bank of England issued small notes, what proportion did the notes under £5 bear to the amount of the whole circulation? That establishment issued such notes from the year 1797 to the year 1821. We find that the highest proportion was in the years 1815 and 1816. On the last day of February in those years the circulation stood thus—

	Notes under £5.	Notes of £5 and upward.	Total Circulation.
	£	£	£
1815 . . .	9,035,250	18,226,400	27,261,650
1816 . . .	9,001,400	18,012,220	27,013,620

Here we find that the notes under £5 were about half the amount of those of £5 and upwards. This was in 1815 and 1816, when the notes were issued only in London. Supposing, therefore, in round numbers, that the Bank of England circulation is now £20,000,000, then in the same proportion it might maintain a circulation of £10,000,000 of small notes. But we must remember that during the last sixty years the population, the trade, and the wealth of the nation has vastly increased. And if pecuniary transactions were conducted in the same way, the notes in circulation must have increased in proportion. But, in consequence of the more general use of bills of exchange, the extension of banking accounts, the more frequent

exchanges between country bankers, and the operations of the Clearing House in London, a smaller amount of bank notes is now necessary. All large transactions are now settled, not by notes, but by bills and cheques and transfers. But these banking facilities which diminish the demand for large notes do not in the same proportion diminish the use of small notes. On the contrary, from the great increase in the labouring population, and the consequent increased extent of retail trade, the demand for small notes to pay wages and to settle small transactions must, during the last sixty years, have greatly increased. Seeing, then, that the demand for large notes has diminished, and the demand for small currency has increased, it seems reasonable to suppose, that were the Bank of England now to issue small notes, the amount in circulation would bear a higher proportion to the large notes than was the case sixty years ago.

I have already stated that we have no returns of the amount of the country circulation previous to the year 1833. But we have the number of notes stamped of different denominations, and we find that in the years 1820 to 1825, the amount of notes stamped under £5 varied from 37 to 50 per cent., making an average of 44 per cent. of the whole circulation. This makes the small notes nearly equal in amount to the large ones. But here again it is probable that the small notes remained out longer than the large ones. A greater proportion of the large notes were probably in the banker's till, and a larger proportion of the small notes in the hands of the public. It seems probable, therefore, that the amount of small notes in active circulation was usually higher than the amount of large notes. And if the Bank of England, whose issues were made only in London, and whose circulation was chiefly in London and Lancashire, maintained

one-third of its circulation in small notes, it seems likely that the country banks, whose notes were issued in almost every town and village in the country, would maintain a much higher proportion than even one-half.

If we look to the present state of the circulation in Ireland and Scotland, we shall find that the small notes form the larger proportion, and the amount furnishes no confirmation of the doctrine that small notes diminish in wealthy countries. Scotland is a wealthier country than Ireland, yet has a larger proportion of small notes. And the north of Ireland is wealthier than the south, yet the banks of Belfast have a larger proportion of small notes than the banks of the south.

From the former circulation of the Bank of England, the stamps issued to the country bankers, and the present circulation of Scotland and Ireland, we have then materials for forming an opinion as to the amount of small notes that might be maintained in circulation in England; and though we cannot fix the amount with that precision which the science of statistics requires, yet after putting the facts and reasonings together, we seem warranted in drawing the conclusion that the amount would not be less than thirty millions; and, consequently, we have the power, when necessary, of releasing from their present duties thirty millions of sovereigns, and employing them for national purposes elsewhere.

Suggestions on the Country Circulation.

It is not my object to examine here any of the enactments of the Act of 1844 that have a reference to the Bank of England; but when the subject is brought under consideration, means should be employed to obtain some modification of those clauses that have a reference to the country banks. The country circulation should be preserved in its integrity—should be rendered capable of

expansion, so as to meet the demands of a more numerous population, extended commerce, higher prices, and increased taxation—its issues should be allowed to be regulated by the demands of trade and agriculture in the respective districts in which the banks are established, and should be rendered as much as possible free from the operation of the foreign exchanges.

We find that in 1844, when the country circulation had greatly declined, we took the actual circulation of the then existing country notes, and made it a maximum circulation —an arrangement which, necessarily, from the fear of incurring penalties, reduced the amount of the actual circulation below the maximum. We apply this maximum to a circulation that fluctuates very much in different parts of the year. If, then, we keep below the maximum in April, we necessarily fall much lower in August. We divide this maximum among 277 banks, and impose heavy penalties upon every one that shall exceed his portion of the maximum,—a circumstance that tends to reduce still farther the actual circulation. No one is forbidden to reduce his issue as low as he pleases; and if he abandons it altogether, only two-thirds can be supplied, and that by permission of the government; and then only upon the application of a bank whose head-quarters are in London, who is to get nothing by the operation, and whose issues are governed by laws which have been declared by the country bankers to be inapplicable to the operations of a local currency, and unsuitable to the requirements of domestic industry. This maximum must never be exceeded, while those banks that previously issued Bank of England notes are not allowed to resume their own circulation, and no new bank of issue is allowed to be established. The result of this arrangement has been, that an authorized issue in 1844 of £8,648,853 is now

reduced to an authorized issue of £7,942,466,[1] and that the actual circulation is generally below £7,000,000, and has been below £6,000,000; while every banker, in certain seasons of the year, has been compelled to watch the issue of his notes, lest he incur those enormous penalties which attend even the accidental violation of the Act.

In endeavouring to remove those inconveniences, we would be governed by a regard to the spirit of the Act of 1844, and attempt only to correct its practical defects. Among the modifications that may be suggested, perhaps the following may deserve a special consideration:—That the present maximum which applies to an average of four weeks should apply to an average of twelve months; —that all the banks who had formed agreements with the Bank of England, and whose compensation ceased in 1856, should be allowed to circulate their own notes to the amount to which they had circulated Bank of England notes;—that the country circulation should not be less than the amount fixed by the Act of 1844, and that the deficiency of £706,387,[2] which has since taken place, should be redistributed among the country banks (whether at present issuing or non-issuing), in the district in which the deficiency has taken place;—that we adopt the enactments of Scotland and Ireland, by allowing the existing banks of issue to extend their issues beyond their fixed amount, provided they have gold, either at the head office or at any of the branches,[3] equal to the amount of the excess; and

[1] The total amount of this country authorized issue at the present time is about £6,038,000, and the actual circulation is about £3,500,000.

[2] This deficiency now amounts to nearly £2,610,000.

[3] The Act of 1845, in reference to Ireland, is imperfect in this respect. The Provincial Bank of Ireland, for instance, can issue notes against gold held in Dublin, Belfast, Limerick, and Cork, but not against gold held at any of the other branches. There seems to be no reason for this distinction.

as Bank of England notes are a legal tender in England, and can be converted into gold upon demand, they might in this instance be placed upon an equality with gold ;— that banks of issue be permitted to continue their fixed issue in the same locality, even should they increase their partners to a greater number than six; and that this regulation be made retrospective, so as to include all unions of banks of issue with other banks that have taken place since the year 1844; and further, that we adopt the law of Scotland and Ireland, by allowing two or more banks of issue, whatever may be the number of their partners, to unite and to retain the united amount of issue of all the united banks. With reference to the issue of notes under £5, we think that is a question for the consideration of statesmen, and its adoption must depend upon the political circumstances of the country. As long as Australia can supply us with gold sufficient to meet our foreign requirements and to maintain our domestic currency, probably we had better remain as we are. At the same time it may be useful to know, that in case of necessity, we have here a magazine from which we may draw a large supply of the sinews of war.

Country Bank Exchanges.

The country bankers residing in the same neighbourhood usually make their exchanges once a week, and pay the difference in London on the following day. This arrangement is of considerable advantage to all parties. Suppose I, as a country banker, receive in the course of a week the sum of £10,000 in the notes of a neighbouring bank, and that bank receives the same amount of my notes; if we exchange notes, there is an end of the transaction. I pay the notes that bank has upon me by the

notes I have upon that bank, and each of us has £10,000 less in circulation. But suppose we refuse to exchange notes with each other, then I take his notes and demand Bank of England notes and sovereigns, and he does the same with me. Hence each of us must keep a balance of £10,000 more in gold or Bank of England notes, and also an additional sum to answer any sudden emergency that may arise at any time from that banker having more than the usual amount of notes, and to meet any run that he may be disposed to make upon me. Thus it is that country banks, by exchanging notes, and receiving payment of the difference in London, are enabled to carry on their business with a less amount of ready cash, and to prevent the danger that might arise from being run upon by each other. Those banks only exchange which are in the same neighbourhood. Were I to receive the notes of a bank at some distance off, I should send these notes to London, and that banker would send my notes to London, and they would be paid by our London agents. We should not exchange with each other, because it would cost more to send a messenger with the notes to be exchanged than it would cost postage to London. Here I have to pay the postage of these notes to London, and I have also to pay the expense of having my notes which have been paid in London sent down to me.

The exchange between any two banks established in the same place will be regulated by the character and extent of the business they may respectively carry on. The balance may for a considerable length of time be uniformly in favour of one of these banks, and then for a considerable period in favour of the other; or it may fluctuate weekly, and at the year's end be found to be neither favourable nor unfavourable. I shall endeavour to investigate the causes which govern these changes. In the first

place, I shall presume that each bank is a bank of deposit, of discount, of remittance, of agency, and of circulation. The claims upon each bank will then consist of—1. Cheques drawn against deposit accounts. 2. Its own notes. 3. Notes issued by its agents or other branches. 4. Letters of credit granted by agents or branches. These claims or obligations will get into the possession of the rival bank by some of the following ways:—1. As lodgments on deposit accounts. 2. In payment of local bills. 3. For bills or letters of credit on agents or branches. 4. Received for collection by post from some agents or branches. The exchanges will now be more or less favourable, according to the following circumstances:—

1. The discounting of bills not payable in the place where the banks are established has a tendency to render the exchanges unfavourable.

If, for example, a country banker discounts bills payable in London, he issues his own notes for the amount at the time the bill is discounted, and some of these notes will get into the rival bank, and render the exchanges unfavourable. When the bills are due, the London agent receives the amount from the accepters, but this has no effect on the local exchange. Hence a bank that discounts a large amount of London bills must expect to have large sums to pay in the exchanges. There are some cases, however, in which the discounting of London bills will not affect the local exchange: these are—1. When the amount of the bill is not taken in notes, but in a draft on the London or some other agents. 2. When the amount of the bill is placed to the party's current account, the exchanges will not be affected so long as it remains on that account. 3. The exchanges will not be affected, if the notes issued for the London bill

should be retired either by the bank that issued them, or by any of its agents.

2. If a bank has to pay a large amount on letters of credit issued upon it by its agents or branches, the exchanges may become unfavourable.

The exchanges between any two banks may be affected by other circumstances than local connections. If one bank is *drawn upon* by agents or branches, or has to pay notes issued by agents or branches, and the other has no such connections, then the exchange will be unfavourable to the former bank and favourable to the latter. Some of these notes or letters of credit, and some of the notes issued for the letters of credit, will probably get into the possession of the rival bank, and appear in the exchange.

3. If a bank issues a large amount of bills, or letters of credit upon its agents or branches, the tendency is to render the exchange favourable.

The bank receives the money for these bills or letters at the time it issues them. This money will often be composed of the notes chiefly in circulation, and a part of them will consist of the notes or obligations of the rival bank, and will be paid in the exchange: or if the bank receive from its agents or branches any claims upon the rival bank, or even any bills to be collected, the effect will be to render the exchange favourable in the same way as the granting letters of credit upon those agents or branches.

4. The increase of lodgments on current accounts has a tendency to render the exchanges favourable.

On these accounts money is received and money is paid out daily. The receipts of money tend to throw the exchange in favour of a bank, because some portion of these receipts will consist of the obligations of the rival bank. The payment of money tends to render the exchange

unfavourable, because some of the notes issued in payment will find their way into the other bank. When, therefore, the receipts are more in amount than the payments, the exchanges are likely to be favourable. When the total deposits lodged in a bank continue to increase, the exchange will probably be favourable *during the progress of* such increase; but after the deposits have ceased to increase, the exchange will not be more favourable than before the increase began. As long as the amounts of the deposits in the respective banks remain stationary, the operations on those accounts will not affect the exchanges, although the deposits in one bank may be twice the amount of those in the other. But if, from a transfer of accounts or from other causes, the deposits increase in one bank and diminish in the other, the exchanges during these operations will be in favour of the bank whose deposits are on the increase. But let the progress of increase be over, and the amounts of the respective lodgments become permanently fixed, then, as far as the operations on the current accounts are concerned, the exchanges will again be equal.

5. An increase in the amount of local bills under discount has a tendency to render the exchanges unfavourable. Local bills are bills payable in the place where the bank is established. The operations on the local bill account are similar to those on the deposit account. When these bills are discounted, notes are issued—when the bills are paid, notes are received. When the amount of local bills paid is greater than that discounted, the tendency is to render the exchanges favourable. Thus, to reduce the amount of local bills under discount is to render the exchanges favourable; and to increase the amount, is to render them the reverse. But though the operations on the local bill account are similar in their nature to those

on the current accounts, yet the effect is different as to their influence on the exchanges. For as the amount of the local bills under discount increases, the exchanges become unfavourable; but as the deposits increase, the exchanges become advantageous. In the increase of local bills, the issue of notes will be more than the receipts; but in the increase of the deposits, the receipts will be more than the issues.

As the laws of the country circulation are the same, whether the notes are issued by private or by joint-stock banks, I have introduced the subject into this section.

SECTION XXXII.

COUNTRY JOINT-STOCK BANKS.

HAVING treated of the country joint-stock bank circulation, in conjunction with the country private bank circulation in the foregoing section, there only remains to be noticed in the present section, the Act of Parliament permitting the establishment of country joint-stock banks.

By a clause in the charter of the Bank of England no partnership formed for carrying on the business of banking could consist of more than six persons, but by an Act passed in the year 1826, co-partnerships of more than six in number are permitted to carry on business as bankers in England, *sixty-five miles from London*, provided they have no house of business or establishment as bankers in London, and that every member of such co-partnership shall be responsible for all the debts of the company. They must also deliver to the Stamp Office the names and places of abode of all their members, and also a list of their officers. These lists are to be copied into a book which any person is entitled to see on paying one shilling, and to obtain a copy for ten shillings. The banks may sue and be sued in the name of their public officer, and execution upon judgment may be issued against any member of the co-partnership.

We take the following account of these banks from a Report of a Committee of the House of Commons, appointed in the year 1836, to inquire into the operation of

the above-named Act, 7 Geo. IV. cap. 46, for permitting the establishment of joint-stock banks:—

"The evidence taken before your committee, and the returns from the Stamp Office, establish the fact that these banks are rapidly extending in all directions; that new companies are daily forming, and that an increased number of branches and agencies are spreading throughout England even in small towns and villages; that a principle of competition exists which leads to the extinction of all private banks, and to their conversion into banking companies. The mode in which this is effected, and the principle on which the issue of transferable shares acts at once on private banks, and generally on commercial credit, is fully developed in the evidence.

"Your committee have had before them the deeds of settlement of the greater number of the existing joint-stock banks, and they proceed to submit to the House an analysis of some of their leading provisions.

"Though the general objects of these establishments are much alike, yet there are some variations in their deeds of settlement which it may be material to point out:—

"First, as to the power of altering the regulations of the company.

"The active duties are generally delegated to a small body called the directors, while the main body of proprietors reserve to themselves the power of selecting the directors, and of altering from time to time the rules by which the directors are to be governed. Indeed, it might have been expected that the proprietors would always have reserved to themselves this power; nor should this general rule have been noticed, had it not been necessary to point out a single exception to it in the case of one particular company, in which all the powers of the com-

pany are vested in the directors of the central bank till January, 1838, and even after that date this authority is only to be controlled by the 'general board of directors', consisting of the central directors themselves, and of the local directors of branch banks appointed by them. The deeds of all the other companies expressly give a power to the shareholders to make new laws and regulations.

"Secondly, as to the mode of conducting the business of banking.

"This is for the most part set out in general terms. Some banking companies content themselves with defining the business to be 'banking in all its branches;' in other cases it is called 'the business of bankers.'

"Advancing money on real security is in no instance forbidden. The deeds of three companies are silent on the subject; the rest expressly allow it.

"The majority of the deeds are silent on the subject of the purchase of land. The ———— Banking Company expressly allows it. The ———— Banking Company and the Union Banking Company expressly forbid it.

"An advance of money on mining concerns is in no instance expressly allowed; in many it is expressly forbidden; in the majority it is passed over in silence.

"Advances of money upon any 'public foreign government stock,' or 'the stock of any foreign chartered public company,' is directly sanctioned in the deeds of four banking companies. Investment in foreign government stock or funds, is allowed by the deed of another bank. Such advances are expressly forbidden by many of the deeds, and are passed over in silence by many others.

"In no instance is the company forbidden to become the purchaser of its own shares, but, on the contrary, power is expressly given to do so by means of the deeds, and

that to any amount. The only modifications of this power which your committee have found, are in the case of one banking company, in which the directors are authorized to purchase shares in the case only of a refusal to admit as a proprietor the person proposing to buy; and in the case of another bank, the number of shares to be bought in by the directors is restricted to forty.

"Thirdly, as to the degree of publicity to be given to the proceedings.

"No principle seems to be more attended to, or prominently put forward, than that of preserving secrecy as to the state of the accounts of the customers of the banks. To this principle there does not appear to be an exception.

"The directors are in general required to sign a declaration pledging themselves to observe secrecy as to the transactions of the bank with their customers, and the state of the accounts of individuals. In some of the companies this declaration is also to be signed by all the clerks and officers. One banking company goes so far as to require an oath to this effect. If the proprietors are dissatisfied with the statement of accounts made by the directors, a power is generally reserved to appoint auditors or inspectors for the examination of the books, but these auditors or inspectors are required to sign a similar declaration of secrecy.

"No proprietor, not being a director, is entitled to inspect any of the books of the company.

"The directors are in general bound to exhibit to the general meeting of the shareholders a summary or balance-sheet of their affairs, and to make such further statement or report as the directors may deem expedient or conducive to the interests of the company. In the case of one of these banks, even this is not obligatory by the terms of the deed, which leave it to the discretion of the directors

whether they do or do not exhibit a balance-sheet. In a very extensive bank, the proprietors annually appoint auditors to examine the affairs of the company and to report therein.

"In some of the companies the principle of secrecy is carried still further: two of the directors, selected from the rest, are the exclusive depositaries of the power of inspecting the private accounts of customers. These persons are sometimes called 'confidential directors.' This provision is stated to be made 'in order that the credit and private transactions of individuals may be preserved inviolate.' Sometimes they are called 'managing directors;' sometimes 'special directors.' In other companies, though all the directors have the power of inspection of the accounts of customers, two of the directors are selected to inspect bills and notes, 'in order to prevent the exposure of such bills of exchange and promissory notes as may pass through the bank.' These two directors are called the 'bill committee.' In two of the companies a single person called the 'manager' has the exclusive power of inspecting bills and notes.

"Fourthly, as to the terms on which the company is to be dissolved.

"The deeds of all these companies contain some provision for dissolution in certain contingencies. It is in general provided that a dissolution of the company shall take place by reason, either of a certain amount of loss, or of a voluntary agreement. Dissolution by reason of loss in the great majority of the deeds is provided for in the following manner:—

"It is necessary to premise that the directors of each of these companies are bound to set aside a certain portion of the profits to form a fund to meet extraordinary demands, which fund is sometimes called the 'surplus

fund,' sometimes the 'reserved fund,' but more usually the 'guarantee fund.' The ordinary provision for dissolution is to this effect:—That if the losses sustained shall at any time have absorbed the whole of this 'guarantee fund' and also one-fourth of the capital paid up, then any one shareholder may require the dissolution of the company, which shall take place accordingly, unless two-thirds in number and value of the shareholders shall be desirous of continuing the company, and shall purchase the shares of those proprietors who wish to withdraw. In one bank the dissolution of the company takes place upon a loss of one-fifth instead of one-fourth of the capital. In two other banks no mention is made of the guarantee fund.

"The provision of the great majority of deeds as above stated is, that in the event of a given amount of loss any one shareholder may propose the dissolution. In some, three shareholders are required. In the Banking Company A, the requisition for dissolution must be made by ten shareholders holding 200 shares; in the Bank B by one-fourth of the company; but if the loss amount to one-half the capital, then by any single shareholder.

"By the general provisions of the great majority of deeds, the dissolution of the company, though duly proposed, may be averted by two-thirds of the proprietors; but in some there exists no such restriction; and on the occurrence of a given amount of loss, the dissolution, if proposed, must necessarily take place. In other instances, on the appearance of a given amount of loss, the dissolution is to take place immediately, even though no partner should propose it."

SECTION XXXIII.

THE SCOTCH BANKS.

IN this section we shall consider the following topics :—

I. The Law of Scotland with reference to Banking.
II. A Comparison between the Banks of Scotland and those of England.
III. The Laws of the Currency with reference to Scotland.
IV. Those operations of the Scotch Banks that refer to the system of Cash Credits, Interest on Deposits, and the settlement of the Exchanges.

I.—*The Law of Scotland with reference to Banking.*

The general provisions of the law of Scotland bearing upon this subject are calculated to promote the solidity of banking establishments.

1. There is no limitation to the *number* of partners.

2. The *private fortune* of every partner is answerable for the debts of the bank.

3. *Land*, as well as other property, *may be attached* for debt.

4. In Scotland *all Land is registered;* so it is easy for any individual, by referring to the records, to ascertain what landed property is possessed by the partners of the

bank, and also whether or not it be mortgaged. The following is the language of the Report of the Committee of the House of Commons, appointed in 1826 to consider the expediency of abolishing all notes under £5 :—

"There is no limitation upon the number of partners of which a banking company may consist ; and, excepting in the case of the Bank of Scotland, and the two chartered banks, which have very considerable capitals, the partners of all banking companies are bound jointly and severally, so that each partner is liable to the whole extent of his fortune for the whole debts of the company.

"A creditor in Scotland is empowered to attach the real and portable, as well as the personal estate of his debtor, for payment of personal debts, among which may be classed debts due by bills and promissory notes ; and recourse may be had for the procuring payment to each description of property at the same time. Execution is not confined to the real property of a debtor merely during his life, but proceeds with equal effect upon that property after his decease.

"The law relating to the establishment of records gives ready means of procuring information with respect to the real and heritable estate of which any person in Scotland may be possessed. No purchase of an estate in that country is secure until the seisine (that is, the instrument certifying that actual delivery has been given) is put on record ; nor is any mortgage effectual until the deed is in like manner recorded.

"In the case of conflicting pecuniary claims upon real property, the preference is not regulated by the date of the transaction, but by the date of its record. These records are accessible to all persons ; and thus the public can with ease ascertain the effective means which a banking company possesses of discharging its obligations, and the

partners in that company are enabled to determine with tolerable accuracy the degree of risk and responsibility to which the private property of each is exposed.

"There are other provisions of the law of Scotland which it is not necessary minutely to detail, the general tendency of which is the same with those above mentioned."

"The following Acts of Parliament have been passed in reference to banking in Scotland:—

"The first notice of banking in Scotland which occurs in the statute-book, is an Act of King William the Third, passed in the year 1695, under which the Bank of Scotland was established. By this Act an exclusive privilege of banking was conferred upon that bank, it being provided, 'that for the period of twenty years from the 17th July, 1695, it should not be lawful for any other person to set up a distinct company or bank within the kingdom of Scotland, besides those persons in whose favour this Act was granted.' No renewal of the exclusive privilege took place after the expiration of the twenty-one years.

"The Bank of Scotland first issued notes of 20*s.* in the year 1704; but the amount of notes in circulation previous to the Union was very limited.

"The Bank of Scotland continued the only bank from the date of its establishment in 1695, to the year 1727.

"In that year a charter of incorporation was granted to certain individuals named therein, for carrying on the business of banking under the name of the Royal Bank; and subsequent charters were granted to this establishment, enlarging the capital, which now amounts to one million and a half.[1]

"An Act passed in the year 1765, is the first and most

[1] The capital of the Royal Bank of Scotland now amounts to two millions.

important Act of the Legislature which regulates the issue of promissory notes in Scotland.

"It appears from its preamble, that a practice had prevailed in Scotland of issuing notes which circulated as specie, and which were made payable to the bearer on demand, or payable at the option of the issuer at the end of six months, with a sum equal to the legal interest from the demand to that time.

"The Act of 1765 prohibits the issue of notes in which such an option as that before mentioned is reserved to the issuer. It requires that all notes of the nature of a bank note, and circulating like specie, should be paid on demand; and prohibits the issue of any promissory note of a sum less than 20*s*.

"With respect to the issue of promissory notes in England, an Act was passed in 1775, prohibiting the issue of any such notes under the sum of 20*s*. And in the year 1777, restraints were imposed by law on the issue of notes between the sum of 20*s*. and £5, which were equivalent to the prohibition of such notes circulating as specie.

"In the year 1797, when the restrictions as to payments in cash were imposed upon the Bank of England, the provisions of the Act of 1777, with regard to the issue of notes between 20*s*. and £5, were suspended. By an Act passed in the third year of his present Majesty, the suspension was continued until the 5th of January, 1833; but now stands limited, by an Act of the present session, to April 5, 1829."

"The general result of the laws regulating the paper currency in the two countries is this:—

"That in Scotland, the issue of promissory notes payable to bearer on demand for a sum of not less than 20*s*. has been at all times permitted by law, nor has any Act been passed limiting the period for which such issue shall con-

tinue legal in that country. In England, the issue of promissory notes for a less sum than £5 was prohibited by law from the year 1772 to the period of the bank restriction in 1797. It has been permitted since 1797; and the permission will cease, as the law at present stands, in April, 1829."

The Act which now regulates the issue of bank notes in Scotland is 8 & 9 Vict. c. 38, passed in the year 1845.

By this Act, the power of issuing notes is confined to those banks that issued notes in the year preceding the 1st day of May, 1845. And the amount to which each bank may issue is not to exceed the average amount of notes it had in circulation during the year ending the 1st of May, 1845, and the amount of gold or silver coin it may at the time have in possession at the head office or principal place of issue, in the proportion that the silver shall not be more than one-fourth the amount of the gold.

This Act was to come into operation on the 6th day of December, 1845. After which day each banker is to make weekly returns to the Stamp Office of his notes in circulation, and of the gold and silver coin on hand; and the averages of four weeks are to be published in the "London Gazette," with a certificate from the commissioner as to whether the bank has held the amount of coin required by this Act.

All banks, except the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Company, are required to send to the Stamp Office, between the 1st and 15th days of January, inclusive, the names of all their partners, which shall be published by the 1st day of March following, in some newspaper circulating within each town or county respectively in which the head office or principal place of issue of such bank is situated.

Bank of England notes are not to be a legal tender in Scotland.

In the Acts of Parliament passed in 1844 and 1845 for Regulating Banks of Issue in England and in Scotland, we may observe the following differences:—

1. The maximum of the circulation in England is the average of the twelve weeks ending the 27th of April, 1844. The maximum in Scotland is the average of the year ending the 1st day of May, 1845.

2. The English banks are not, under any circumstances, allowed to exceed the fixed limit. The Scotch banks are allowed to exceed their limit, provided they hold in their coffers at the head office an amount of gold and silver equal to such excess.

3. In England, should two joint-stock banks of issue effect a junction, the circulation of one of them would be forfeited,[1] and the united bank could issue only to the amount which the other bank had previously issued. In Scotland, the united bank is allowed to issue to the amount of the two circulations added together.

4. In Scotland, notes under £5 are still permitted. In England, notes under £5 are still prohibited.

II.—*A Comparison between the Banks of Scotland and those of England.*

The differences between the English and the Scotch banks are the following:—

[1] There is no express provision in the English Act with reference to the junction of two joint-stock banks. We consider that only one of the banks would lose its issue, *provided* the continuing bank retained its original title, so as not to create a new bank. But if by the union a new bank should be formed, then both the banks would lose their issues. In the same way, we think that the union of an issuing and a non-issuing bank would cause no change in the issue. But then the new bank must retain the title of the old issuing bank. Its right of issue would not be affected by taking new directors or new shareholders.

1. The Scotch banks are all joint-stock banks. In England there is a mixture of joint-stock and private banks.

2. The Scotch banks are all banks of issue. In England there are many, both private and joint-stock banks, that are not banks of issue.

3. The Scotch banks all have branches. In England most of the private banks, and some of the joint-stock banks, have no branches.

4. The Scotch banks universally grant interest on the balance of current accounts—a practice not universally adopted in England, especially in London.

5. The mode of making advances by way of "cash credit" is general in Scotland, but exceptional in England.

We may also observe some other differences, chiefly of a business character, which have an important bearing on the interest of the community.

1. The banks of Scotland have generally a large paid-up capital.

"Two great errors appear to have been committed in the formation of joint-stock banks in England, and, until these are remedied, such establishments can hardly expect to reach a higher degree of importance or credit than is attainable by a wealthy private bank. These evils are, in the first place, too small a capital relatively to the extent of business undertaken; and, in the next place, the circumstance of the issues of the joint-stock banks being left uncontrolled by any effective system of *exchange*.

"The advantage of a small capital in banking is, that it enables the establishment, if at all successful in business, to pay a large dividend. The profits of banking depend, in a great measure, on the amount of deposits and circula-

tion, and, according as these are great or small compared with the extent of the capital, will the company be enabled to divide a larger or a smaller dividend. It therefore becomes the obvious policy of those establishments, the managers of which conceive that the success of a bank is proved by the early payment of a high dividend, to keep the capital of the company within the narrowest possible limits. This system has been carried to the utmost extreme in England; and hence, although large dividends have been paid to the shareholders, there has been no corresponding increase of confidence on the part of the public.

"The Scotch banks, on the other hand, have pursued a directly opposite course. Their object has been to secure public confidence by the extent of their capital, and they have continued to pay moderate dividends to their shareholders, until justified in augmenting them by years of success, and a large accumulated sinking-fund. So well, indeed, is this system understood, and so completely has it attained its purposes, that the slightest appearance of improvidence displayed by a Scotch joint-stock bank, in fixing the amount of its dividend, has been invariably attended with a decrease of the public confidence in the stock of the establishment. In this manner public confidence has been secured, the value of Scotch bank stock has risen in the market, and the shareholders have received their extra profits as a *bonus*, or in the increased value of their own shares. Thus, instead of being looked upon as establishments aiming at the ephemeral advantage of making a large dividend, for stock-jobbing or temporary purposes, our banks have almost invariably assumed the character of permanent national establishments, identified with the prosperity of the country, and, by means of their small-note circulation, conferring benefit on, as well as

obtaining the confidence of, every class in the community." [1]

2. In operating on his current account, it is not the general practice in Scotland for a customer to draw cheques [2] on the bank for his individual payments, nor to accept bills payable at the bank. If he has to make twenty payments in the course of the day, he will go to the bank in the morning, and draw out in one sum a sufficient amount of notes to make all these payments. On the other hand, if a customer should receive money from twenty different people in the course of the day, he will not receive cheques, as there are none in circulation, but bank notes, which at the close of the day he will pay in one sum into the bank. In England, all these receipts and payments would be made in cheques, each having probably odd shillings and pence. From this cause, the trouble and expense to a bank of conducting a current account is much greater in England than in Scotland.

3. The system of numerous branches leads to uniformity all over Scotland in the terms on which business is transacted in the banks.

From the small number of banks that existed for many years in Scotland, and from the circumstance that the head offices of most of these banks were fixed at Edinburgh, it was easy for them to form arrangements among themselves for the regulation of their business. Hence arose a uniformity of practice among all the banks, and throughout the whole of Scotland.

[1] "Letter to James William Gilbart, Esq., on the Relative Merits of the English and Scotch Banking Systems; with Practical Suggestions for the Consolidation of the English Joint-stock Banking Interest." By Robert Bell.

[2] This custom is very much modified now; the system of passing cheques having become almost universal a daily clearing has been instituted.

This uniformity does not exist in England. The system of London banking is different from that in the country. And the banking of one district differs from that of another district. It would be difficult to produce any general union in England, even among the joint-stock banks. There is a difference in the character of their localities. Their head offices are too wide apart to admit of frequent personal communication. And it may be feared that among the joint-stock banks of England there is not enough of that *esprit du corps* which is essential to the existence of a general confederation.

There is, however, considerable competition among the banks of Scotland. This rivalry, however, does not lead to transacting business on lower terms.[1] Indeed, these terms are always very moderate. The difference between the rate of interest allowed and charged is rarely more than one per cent. No commission is charged on current accounts; and it is only recently, we believe, that commission has been charged on the amount (not the operations) of cash credits. Sometimes the banks at Glasgow, when there is a great demand for capital, have been disposed to grant a higher rate of interest than the banks of Edinburgh; but this difference has soon been arranged. The provincial banks, too, have carried on a strong opposition against the branches of the Edinburgh banks. The late Thomas Kinnear, Esq., when asked what had led to the discontinuing of some branches of the Bank of Scotland, replied:—

"With respect to those that are beyond my memory, I cannot say what was the cause; but those that have

[1] The banks have entered upon an agreement to maintain a uniform scale of charges for commission, exchange, &c., and meet from time to time to settle the rates of discount and interest—these being regulated by the rise and fall in the Bank of England rates.

been given up within my recollection, in point of fact were given up in consequence of the town in which that branch had originally been established having accumulated wealth to such a degree that it could afford a banking capital of its own, and that it had in point of fact established a local bank; then the connection of that local bank went so strongly against us by fair competition, that we found we could employ our capital to better purpose elsewhere, and gave up the branch." [1]

4. The system of numerous branches enables the banks of Scotland to transfer the surplus capital of the agricultural districts to the manufacturing and commercial districts, without going through the process of rediscounting their bills.

Some Scotch writers have considered it a reproach to the English banks that they rediscount their bills, and have boasted that the practice of rediscount is unknown in Scotland. The accusation is made without due consideration. The system of branches makes a difference in all banking arrangements. A bank in an agricultural district, say at Norwich, has a superabundance of money. A manufacturing town, say Manchester, has a demand for money. The bank at Norwich will send its money to a bill-broker in London. The bank at Manchester will send its bills to the same broker. A rediscount takes place. But let us suppose that the bill-brokering establishment should become the head office of a large bank, having one branch at Norwich and another at Manchester. Then no rediscount will occur. The bills discounted at Manchester will never pass out of the possession of the bank. Nevertheless, the surplus funds at Norwich will be transferred to meet the wants of Manchester as effectually as before. This is an illustration of

[1] Commons, 132, Kinnear.

the branch system in Scotland. A bank at Edinburgh will have branches in both the agricultural and the manufacturing districts. Or a bank whose head office is in a manufacturing town, will have branches in the agricultural districts. Thus the surplus funds of Perth, Ayr, and Dumfries are speedily transferred to be employed at Glasgow, Paisley, and Dundee. Were a bank to be established at Glasgow without branches, it would probably have occasion for discount at certain times, as well as the banks at Manchester or Leeds.

At the same time, we think this transfer of capital by means of branches is better than by means of rediscount. There is no occasion for the intermediate party, the bill-broker. The bills do not go out of the bank, so that men's transactions do not become known. The abuses connected with rediscount by fictitious bills are effectually prevented, and the bank can more readily regulate its advances in accordance with its means. To recur to our illustration:—The bank at Norwich may lose a large amount of its deposits; the bank at Manchester, knowing nothing of this, may continue its advances in dependence upon receiving its usual rediscount. The check may at length come so suddenly that the Manchester bank may be placed in difficulty. Under the branch system, should any large amount of deposits be withdrawn from one branch, the bank would immediately limit its advances at the others. The advantage of this system on the approach of a pressure is obvious.

5. The system of numerous branches leads to more regularity and uniformity in the mode of making their exchanges.

The Scotch bankers are loud in their praises of the system of exchanges. And justly so. We have shown

that the English country banks make their exchanges with each other, and pay the difference by a draft on London. These operations have the same effect as the exchanges in Scotland of withdrawing from circulation all the superfluous notes; that is to say, all the notes that come into the hands of the bankers. If it be true that notes remain out longer in circulation in England than in Scotland, it arises not from any difference in the system of exchanges, but from a difference in the habits of the people with regard to "keeping a banker." If a Scotch banker issue £1,000 of notes in the morning, he feels assured that these notes will be paid into some other bank in the course of the day. An English banker is not so sure. The party may not "keep a banker," and he may then lock up the notes in a strong box for a week or ten days, until he have occasion to make a payment. We think it desirable that every man who has money should lodge it in a bank, not merely for interest, but for security, and therefore we approve of the Scotch practice. But it is this universal practice of having a banker, and not merely the system of exchanges, that withdraws notes so rapidly from circulation.

At the same time, it should be stated that the Scotch bankers are of opinion that our system of banking in England is chargeable with some portion of the blame. They say that as the English banks do not universally allow interest on deposits and current accounts, the people have not the same inducement as in Scotland for placing their money in a bank. And as many banks charge commission on the operations of a current account, it is the interest even of those who keep bankers to pay away the notes they receive to other parties, rather than to lodge them to their credit with their banker. On this subject I

may quote the following extract from a second letter addressed to me by Mr. Bell:[1]—

"In Scotland we have adopted every means to concentrate the resources of the country in the hands of the banker. We allow a liberal rate of interest on deposits, while we not only encourage small capitalists and traders to open accounts with us, but we induce our customers to make frequent operations on their accounts, and the result is that every superfluous bank note is rapidly returned upon the issuer. The very opposite course is pursued in England. You allow no interest on deposits, you give no encouragement to small depositors, while you put a barrier in the way of your customers' making frequent operations, by the charging a commission on the debit side of their accounts; the consequence of which is, that not only your paper, but your gold currency, stagnates in the hands of the public during times of prosperity, leaving the paper issues to be poured back upon the issuers in seasons of adversity, thus aggravating in no slight degree the severity of monetary pressures."

Even were the keeping of a banker as general in England as in Scotland, the same system of exchanges could not be adopted. The Scotch system requires,—an equality, or an approach to it, among the several banks; that the head offices of these banks, generally, should be in the capital; and that the banks should have numerous branches throughout the country. These circumstances do not exist in England. And, moreover, we have the Bank of England, whose notes are a legal tender. It is obvious there can be no exchange of notes in places where, as in London,

[1] "A Letter to J. W. Gilbart, Esq., on the Regulation of the Currency by the Foreign Exchanges, and on the Appointment of the Bank of England to be the sole Bank of Issue throughout Great Britain." By Robert Bell.

there is only one bank of issue. But the exchanges between English country banks are precisely upon the same principle as those in Scotland, and have similar effects. The differences are paid by drafts on London, payable on demand, and these drafts again pass through the clearing.

Another advantage ascribed to the Scotch system of exchanges is, the surveillance which, by this means, the large banks at Edinburgh are able to exercise over the smaller banks in the provinces. That this surveillance exists in Scotland, and that it has been exercised beneficially, we entertain no doubt. It is equally true that such a surveillance does not exist in England. But the system of exchanges is not the cause of this surveillance, it is merely the instrument. In Scotland, the banks being few, and nearly all their head offices being at Edinburgh, they are able to confer together, and to fix on rules for their general government. With any inferior bank that refuses to comply with these rules they can refuse to exchange notes, and thus force it to compliance. In England, where the banks are numerous, and where their head offices are distant from each other, such a system cannot well be formed; and hence each bank is free from the control of other banks, and may pursue any course it pleases, however injurious to itself or to others, so long as it is able to make good its payments to the public. The banks at Edinburgh, too, by means of their numerous branches, have the earliest information of any irregular practice that may have been adopted by a local bank in the provinces;—but the large banks in London have comparatively but a very imperfect knowledge of the operations of either the private or the joint-stock banks that are scattered over the country.

From a want of this surveillance, banks in England have carried on business for years after they have been supposed to be insolvent. Hence they have gone on until their

losses have not only absorbed the whole of their capital, but have required to replace them further demands to a large amount from their shareholders. In Scotland, these banks, if they could not be kept in the right path, would probably have been compelled to stop before they had wandered so widely. Banks, as we have seen, do sometimes fail in Scotland, but never under circumstances that shake the public confidence in the general banking institutions of the country.[1]

6. The confidence placed in the banks of Scotland by the public renders them less exposed to inconvenience during a season of pressure.

When a pressure takes place in England, the first objects of suspicion are the banks. People that have money in their banker's hands draw it out, and hoard it. The bankers, knowing that they are liable to these demands, draw in their funds, and make provision accordingly. Hence the capital of the country is rendered dormant at the time when it is most required to be in a state of activity. Banks that issue notes are more liable than others to these sudden demands. But no such feeling exists at present in Scotland. And should the Act of 1845 have the effect of inoculating the people with the love of gold, and by this means place the banks in the same position during a pressure as the banks of England, it must be regarded as a national calamity.

[1] The failure of the City of Glasgow Bank will immediately occur to the mind of every reader. This institution was brought down by a long course of unsound banking, culminating in fraud. But such faith had the people of Scotland in the banking institutions of their country, that, when the report of the accountants deputed to investigate the state of affairs of the bank was published a week or two after the stoppage, and when the unparalleled nature and extent of the calamity, and the grossness of the mismanagement, were seen, public confidence in the other banks never for a moment wavered.

On this subject we again quote from the letter of Mr. Bell:—

"Nor are these benefits, great as they are, the only advantages which we have derived from our system of banking. Our one-pound notes connect and familiarize every artizan and labourer in the country with our banking establishments; and the implicit confidence in our paper currency thus created, and perpetuated by the general experience of the sufficiency of our banks, has on many occasions been remarkably illustrated. It is no exaggeration to say, that at this moment nine-tenths of the labouring classes of Scotland, if they had their choice, would *prefer* a one-pound note to a sovereign; and, as a consequence of this feeling of security, combined with a sense of the other advantages of the system, no one in Scotland can have forgotten the truly national stand, on behalf of our currency, which was made by rich and poor in the year 1825, when your English economists proposed to visit us with an injury similar to that which was in that year inflicted on England.

"With banking establishments thus pre-eminently possessed of national confidence, no mercantile convulsion has hitherto created any general run on our great joint-stock banks. It has been otherwise in England, where, in consequence of legislative enactments, the public have been taught to regard *gold and silver* as the only representatives of value. The bond of union between the banks and the mass of the people has thus been severed; and when a monetary crisis occurs, its consequences are incalculably more injurious. With us (though very rarely) runs have been occasionally made on particular banks, but it has been merely to withdraw a deposit from one bank to place it in another; or to exchange the notes of a suspected bank for the *notes* of one of our national joint-stock banks, the prevailing confidence in our paper currency remaining

unshaken. In this way the disposable banking capital or resources remain in the aggregate unchanged; whereas with you the run is for *gold;* and the coin thus withdrawn from one bank is not redeposited in another, but hoarded till the panic is over, by which means the entire banking resources of the country are involved in the consequences of the temporary disaster; and this, too, at the very time when these resources are most needed."

III.—*Laws of the Currency in Scotland.*

In Scotland the lowest point of the circulation is in March, and the highest in November. The advance, however, between these two points is not uniform—for the highest of the intervening months is May, after which there is a slight reaction; but it increases again until November, and falls off in December. The reason of the great increase in May and November is, that these are the seasons for making payments. The interest due on mortgages is then settled, annuities are then paid, the country people usually take the interest on their deposit receipts, and the servants receive their wages. There are frequently large sums transferred by way of mortgage. It is the custom of Scotland to settle all transactions, large as well as small, by bank notes—not by cheques on bankers as in London. It is remarkable that these monthly variations occur uniformly every year, while the amount of the circulation in the corresponding months of different years undergoes comparatively little change.

The circulation of Scotland is at its lowest point in the month of March, is higher in July, and reaches its highest point in November. In the corresponding months of different years there is but little deviation in the amount of the circulation. These facts prove that the circulation of Scotland does not produce any effect upon prices, nor, con-

sequently, upon the foreign exchanges. It is hardly necessary to adduce evidence in proof of the fact that the prices of commodities do not go on increasing from March to November in every year; and if they do not they cannot be regulated by the currency. This regularity in the circulation shows that it must be governed by some uniform laws, arising from the local circumstances or habits of the country; and this, we think, will always be the case where the banks are passive, and permit themselves to be operated upon by the wants of the trade and commerce carried on in their respective districts.

Though the Act of 1845 does not appear to have had much effect on the laws of the currency, it has had an effect in other ways. It has required the Scotch banks to keep a larger amount of gold in their vaults.

It has also had the effect of inducing the banks to increase their charges, and to decrease the granting of cash credits. The banks are required to keep in their coffers a larger amount of gold. This increased amount yields no interest, and hence to that extent the Act diminishes their profits. To make up the same amount of profit as heretofore, the charges for discounts and advances are increased. This illustrates a principle that we think will always be found correct, that *restrictions upon banks are taxes upon the public*. This principle is not sufficiently obvious to statesmen, nor even to the public, in England; the mercantile classes have been pleased, rather than otherwise, when laws have been passed injurious to bankers. In Scotland such matters are better understood. The commercial classes have always rallied round the banks; they have had the sagacity to perceive the truth of the principle we have advanced; they know that capital employed in banking must be made to produce an average profit; and if the Legislature causes one branch of business to be less productive,

the bankers must make other branches more productive, in order to render capital employed in banking as profitable as it would be if employed in other occupations. But the Act of 1845 not only increased the charge; it led to a limitation of accommodation. There is no one point on which Scotchmen, of all classes, are more unanimous in opinion, than on the advantages that have arisen to their country from the system of cash credits. This system can exist only with a note circulation. One of its objects on the part of the banker is to increase his circulation. But he has no profit by increasing his circulation of notes, if he must keep in his coffers an additional amount of gold equal to that increase. But gold is the idol of our currency theory. The cash credit system, therefore, with all the virtues it produced, has been offered up in sacrifice to this "golden calf."

The Act has, however, not been successful in imparting to the people of Scotland a taste for gold. The bankers are too wise to issue the gold, unless when it is demanded; and the public are too wise to make such a demand. Hence, when the increase of the currency requires a further importation, the gold is quietly brought from London to Edinburgh, is quietly locked up in the vaults of the bank, and, when no longer required, as quietly sent back again. Of course this is a loss to the banks of issue, but in this way it is less injurious than if put into circulation. Disastrous for Scotland will be the day when the people shall become inoculated with the love of a gold currency. The effect of such a desire in England is strikingly exhibited in seasons of pressure. When such pressures occur in Scotland, the banks, unlike those of England, can employ their whole resources to assist their customers, and to support public credit.

Among the theories on the currency was a notion of

establishing one bank of issue for the United Kingdom. The following evidence on this subject was given by Mr. Kennedy, the manager of the Ayrshire Bank, before the Committee on Banks of Issue, in 1841 :—

"Do you think the establishment of a single bank of issue for the United Kingdom would be advantageous or otherwise to Scotland?" "I conceive that it must be very destructive to Scotland."

"In what way?" "It is perfectly clear that it would overturn the present system of banking in Scotland. Our system of banking is based upon the power that our currency gives us to allow a high rate of deposit interest. If you take from us the profit that our currency yields, we must make our profit from some other source; we must increase the charges to the community, and allow less interest, or probably no interest at all, and our system will be totally changed."

Another favourite notion has been the abolition of all notes under £5. A Committee of the House of Lords and a Committee of the House of Commons made reports on this subject in the year 1826. The evidence produced by the Scotch bankers was so overwhelming, that both the committees recommended the postponement of the measure. Robert Paul, Esq., Secretary to the Commercial Bank of Scotland, stated to the Committee of the House of Lords that the following would be the effects of the abolition of the small notes:[1]—

"We should diminish the number of our branches, because we should be involved in an expense in the transmission of gold, which the profits arising out of our branches could never compensate; they are not the most profitable part of our business; they are attended with a great many hazards and disadvantages.

[1] Lords' Report, p. 204.

"We should withdraw our cash accounts, because they could no longer accomplish the end for which they were granted, which was the maintaining our circulation, especially of our small notes.

"We should diminish the interest of our deposit accounts, because we should then be required to keep a very large amount of dead stock of gold in our coffers to meet the constant variations that would arise, and to keep it wholly unproductive. I imagine that if a gold currency were substituted for a small-note currency, there would be a much greater amount of gold required than there is at present of notes. We have at present, in order to meet the constant variations, a large amount of notes constantly on hand, and in the same way we should require a stock of gold, and that would be proportionably larger as the general circulation would be greater." [1]

The following letter, written by an agent at Inverary, to Roger Aytoun, Esq., manager of the Renfrewshire Bank at Greenock, states the inconveniences which the writer apprehends would result from the introduction of a metallic currency into that part of Scotland:—

"With regard to the proposed measure of suppressing bank notes in Scotland for less than £5, I think it would be ruinous to this country; for I cannot see how, if it takes place, the business of the country can be carried on. Confining myself to some of the most prominent instances in which the Highlands will be affected, I shall state the difficulties that occur to me. Our produce chiefly consists of cattle and sheep, grain, wood, kelp, and the production of the fisheries. Cattle are brought to the country markets by the breeders, chiefly small farmers, every man attending his own, and having generally from one to three young animals for sale. There they are met by the dealers

[1] Lords' Report, p. 132.

and graziers, who purchase such of the beasts as suit them; and it is seldom that a single animal, at the age of one or two years, being the ages at which they sell them to the dealers and graziers, comes to the price of £5; the price is more frequently from £2 to £4. Of these a dealer often purchases two or three hundreds in single beasts, so that he has more than £1 and less than £5 to pay to each of as many sellers; but he has no notes under £5, and the sellers are not able to return balance in any coin. This will occur to many dealers at every market; and how is the difficulty to be removed? The dealers must all come loaded with gold and silver, and this they cannot carry to the necessary amount; and besides, they will not be supplied by banks with gold and silver for their bills, by which there would be no profit. The means of paying being wanting the seller will not deliver, and the object of the parties is frustrated; and thus a difficulty is cast in the way of disposing of this material article of Highland produce, which must discourage the sales, and occasion a reduction of price, and consequently of the rent and value of land.

"It is the same in the case of grain, of which bear or barley is what is chiefly sold by small farmers to the distilleries. In settling for some bolls, bought in small quantities of two or three bolls, £5 notes will be found most inconvenient; and the purchasers and manufacturers of wood and bark, and of seaweed for kelp, who require many hands, and pay off their workers generally once in the month, none of whom will draw so small a sum as £1, nor so large a sum as £5, will experience the same difficulty.

"The herring fishery on our coasts employs several thousand men, and is of very great importance. Instances have occurred of herrings being taken in Lochfine alone to the value of £40,000 in one season, and a thousand boats

are generally employed there in the fishing. The fishermen every morning sell their fish to the curers on shore, receive their money, and set out in quest of more. The value of each boat's fishing for a night sometimes exceeds £5, but generally is under it; and there are, in this fishing station alone, a thousand boats to be paid off every morning, of whom most probably two-thirds have to receive less than £5 each. It will be impossible to provide gold and silver sufficient for such a purpose; and in the remote parts of the North Highlands, where the fishery is much more extensive, and banks at a greater distance, the difficulty is insuperable.

"At present the business of the Highlands is transacted by means of bank notes of £1, with some larger notes on occasions, and that with the greatest facility. Cattle dealers, and all others having to pay away money to any amount in small sums to a number of people, as in the instances mentioned, prepare themselves by a mixture of notes, some large and some small, accompanied by a few pounds of silver, and everything goes on well. These notes are preferred by the country people before gold, both because they are unable to distinguish between the genuine and base metal, and because coins are more liable to be lost from their pockets than notes; and they have no reason to repent their confidence in the stability of those banks whose notes they have been accustomed to receive for so many years in their transactions. But if small notes are superseded, and gold substituted, it is not easy to see how the supply of gold is to be kept up to carry on the business and transactions of this country. Should a quantity of it be received into the circulation, it would not remain long, but find its way into the banks, who will not again give it out in bills as they do their notes, and it will immediately become a scarce article in the country. A

person, then, having to pay in small sums, will on every such occasion be obliged to send his large notes to the bank that issued them, perhaps a hundred miles off, to receive gold and silver in their place, to answer his purpose. The conveyance of it to him is next to be provided for. The weight may be too much for the post. There are no mail coaches; and he must either employ a carrier, moving too slowly for his occasions, or be at the expense of sending a trusty person for the treasure.

"In transmitting money from one part of the country to another, the same difficulty will often present itself. Suppose a person in the Western Isles has to pay £19 to one on the Continent. At present this may be conveniently done by three notes of £5 and four of £1 enclosed by post; but when there shall be no £1 notes, the odd £4 must be sent in gold or silver, not conveniently carried in a post letter, and requiring that a person be employed for the purpose, and at some expense.

"Many other such difficulties and inconveniences will occur. These presented themselves to me, and I stated them hastily, without regard to order. If you find anything in them useful for the purpose, I shall be pleased. But it appears extremely hard that the Scotch system should be disturbed, and that we should be obliged to adopt one not only unsuitable to our purposes, but ruinous to the business of our country."

IV. *Those Operations of the Scotch Banks that refer to Cash Credits, Deposits, and the Settlement of the Exchanges.*

Cash Credits.—A cash credit is an undertaking on the part of the bank to advance to an individual such sums of money as he may from time to time require, not exceeding in the whole a certain definite amount; the individual to

whom the credit is given entering into a bond with securities, generally two in number, for the repayment on demand of the sums actually advanced, with interest upon each issue from the day upon which it is made.

Cash credits are rarely given for sums below £100; they generally range from £200 to £500, sometimes reaching £1,000, and occasionally a larger sum.

A cash credit is, in fact, the same thing as an overdrawn current account, except that in a current account the party overdraws on his own individual security, and in the cash credit he finds two sureties who are responsible for him. Another difference is, that a person cannot overdraw his current account, without requesting permission each time from the bank; whereas the overdrawing of a cash credit is a regular matter of business—it is, in fact, the very thing for which the cash credit has been granted. The following advantages have been ascribed to the cash credit system:—

1. Cash credits enable young men of good character to acquire wealth and respectability.

"I have known many instances of young men who were starting in the world from low situations—of servants, who have conducted themselves well during the time they were apprentices—of farm-servants even, who were able to procure an account from a bank by means of some friends or acquaintances becoming their securities—that in the course of their business have raised themselves by becoming farmers of considerable extent, or manufacturers in a way highly creditable to themselves and beneficial to their country.[1]

[1] This and the following quotations are taken from the evidence given by the witnesses from Scotland, before the Committees of Lords and Commons, appointed to consider the expediency of abolishing the notes under £5 in 1826.

"Without cash credits, sober, attentive, and industrious people would not have the means at all of following up what they very deservedly might be encouraged to follow up. They begin the world, in all probability, with a mere trifle, which trifle they have been known to make by their own industry. Having made that, it recommends their character to persons of, perhaps, a little more fortune, who, to encourage them, become sureties for their cash accounts.

"The classes of persons who have cash credits are very various; but they are generally the industrious classes of persons—merchants, and traders, and farmers.

"The accommodation is more readily given to a small than to a large amount—the bank preferring to grant ten credits for £100, than one for £1,000, thereby demonstrating that their accounts are quite as much for the assistance of the poor as for the accommodation of the rich."

2. Cash credits furnish great facility to tradesmen and others in carrying on their business, either in the way of raising money, in making purchases, or in employing at particular seasons their surplus capital.

"Is the advantage to the party borrowing greater under the system of cash credit than under the system of lending in the ordinary mode?—Infinitely.

"Why?—As to the question of actual pounds, shillings, or pence, paid in the shape of interest, there is, in the first place, this difference, that when he discounts a bill, he pays the interest on the sum for three months, if that be the currency of it. Should any accidental mercantile transactions throw into this individual's hands, on the next day, the same amount which he had received thus from the banker, he has lost the benefit of the transaction, because he must keep this: if he has a deposit account with the banker he must keep it at banker's interest, while

he is anticipated by having paid to the banker three months' discount interest on his bill. If a trader were to take his money systematically by discounts instead of by cash accounts, a disadvantage to him would arise. The same principle applies to small sums: if half or a quarter, or any part of the advance which he may have received upon the cash account comes into him, he immediately lessens the advance by paying it into the bank, and the interest being calculated at the close of the account, there is a progressive account of interest diminishing with the principal sum till it is extinguished. So far as to actual benefit of interest; but the convenience of getting money when wanted affords a very material advantage, independent of the actual benefit.

"What are the facilities that exist in obtaining this sort of advantage, compared with those of obtaining an ordinary loan?—When a person applies for a cash account, which is not an immediate advance of money on the part of the bank, but a conferring of the power or privilege of drawing upon the bank to the extent specified, the person proposes two or more personal securities: a bond is made out, and he draws as occasion requires. In this way, he has never more from the bank than is absolutely necessary for the purposes of his business. The account is never recalled, unless it has ceased to be beneficial to the bank, by having been but little operated upon, and thus not having promoted the circulation of the bank's notes. Whenever it becomes a dead advance, the bank calls it up. In the case of a person obtaining a loan, he would probably, in the first place, have to pay the interest down at once; he would have to pay it upon the whole sum, whether he should require it ultimately or not, and it would be liable to be recalled by the lender at his pleasure.

"The person who procures a cash credit, does so upon the security of two or three substantial individuals. He may be a man of little property, but upon that security he gets a credit, perhaps, of £500: his bill to anything like that amount, without those securities, would not be discounted.

"After the permanent credit is given, the option of using it lies solely with the borrower, not with the bank, as does also the option of the period of repayment.[1]

"If a small trader borrow of an individual (not a banker) £100, that individual would not be disposed to receive back his money in £5, or £10, or £15—he would wait till the term expired, when he would receive the whole. When a credit is granted, the individual, perhaps, draws out £50 to-day and pays in £40 to morrow, and goes on in that way, always having credit with the bank to the extent originally stipulated.

"The repayment as well as the overdraught is permitted by the bank to be made in small sums piecemeal: so that by attention in his repayment, the borrower saves himself from paying interest on more than the precise advance for which he has occasion at the moment, and can constantly convert to a safe and profitable purpose the money which he may receive in the course of his trade, however small the amount.

"These advantages are steadily and uniformly afforded at all times to the industrious tradesman, or farmer, the merchant, the professional man, and the landlord."

3. Cash credits supply capital for carrying on extensive

[1] It is true the borrower can avail himself of the full extent of the credit, or not, as he pleases. But at the present time, at least, it is not correct to say that the option of the period of repayment lies with the borrower, as every bank retains the power of calling up the credit on giving three or six months' notice.

branches of trade, employing the population, and constructing public works.

"Cash credits for small sums enable the poor to be as instrumental, as far as their means go, in increasing the capital of the country, as the rich are. For the produce of that industry which cash account credits enable to operate, and of that capital which they leave at liberty to be employed in trade, goes to increase the real wealth and capital of the country; and a great proportion of the transactions, carried on through the instrumentality of cash accounts, consists of those of the poorer classes.

"I apprehend that those cash credits have enabled a large number of manufacturers to carry on business, and to employ the population of the country, who, if they had not such credits, could not have carried on such business, nor employed such population.

"Cash credits are granted to almost all descriptions of persons throughout the country. Every young man who has a prospect of success on entering life, applies for a cash credit. A great many gentlemen have cash credits, and a great many farmers. There is hardly any public work undertaken in Scotland that the first object is not to apply for a cash credit, to carry it on to advantage. All the roads in Scotland are managed by Parliamentary trustees; and I believe there is hardly any one of those sets of trustees which have not cash accounts for the purpose of carrying on their operations. I am sure many of the most important public works in Scotland would not have been carried on, or certainly not with the same advantage, but for the credits they obtain from the banks."

4. Cash credits prevent large manufacturers setting up as bankers, and thus they exclude those evils which in other countries have resulted from the failure of private banks.

"When the system is applied to the case of large manu-

facturers, employing hundreds or thousands of workmen, and possessing a cash credit to a proportionate amount, upon sufficient security, one obvious effect is, that the temptation is removed from the manufacturer of attempting to issue notes, and becoming himself a banker—an error or temptation which, if what is said is true, has been the main cause of the institution of many insufficient English bankers, whose partners, from being good traders, became bad bankers, and brought upon their own district the distress which bad banking sooner or later always produces."

5. Cash credits have a considerable moral influence upon the habits and character of the people.

"The security afforded to a bank by its debtor, or rather its customer, on a cash credit, is by bond, with two sureties at the least; occasionally there are not two sureties, but frequently many more; the practical effect of which is, that the sureties do, in a greater or less degree, keep an attentive eye upon the future transactions and character of the person for whom they have thus pledged themselves. And it is, perhaps, difficult for those who are not intimately acquainted with it to conceive the moral check which is afforded upon the conduct of the members of a great trading community, who are thus directly interested in the integrity, prudence, and success of each other. It rarely, indeed, if ever, happens, that banks suffer loss by small cash credits.

"This system has a great effect upon the moral habits of the people, because those who are securities feel an interest in watching over their conduct; and if they find they are misconducting themselves, they become apprehensive of being brought into risk and loss from having become their securities; and if they find they are so misconducting themselves, they withdraw the security.

"Sometimes cash credits are recalled from the interference of the securities. They have the power of knowing from the bank at any time the state of the account, and the operations upon it; and if from that, or from other circumstances, they have been led to think less favourably of the person for whom they gave the security, they can immediately cease to allow that account to be further operated upon."

The Report of the Committee of the House of Lords contains the following observations upon the effects of cash credits:—

"There is also one part of their system which is stated by all the witnesses (and in the opinion of the committee very justly stated) to have had the best effects upon the people of Scotland, and particularly upon the middling and poorer classes of society in producing and encouraging habits of frugality and industry. The practice referred to is that of cash credits. Any person who applies to a bank for a cash credit, is called upon to produce two or more competent securities, who are jointly bound; and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his securities, he is allowed to open a credit, and to draw upon the bank for the whole of its amount, or for such part as his daily transactions may require. To the credit of this account he pays in such sums as he may not have occasion to use, and interest is charged or credited upon the daily balance as the case may be. From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived by the whole community."

As by cash credits the banks render themselves liable to be called upon at a moment's notice for the amount of the credit granted, it is natural to suppose that they contemplate some advantage in return. The advantage contemplated is the circulation of their notes. It is not intended that the cash credit shall be a dead loan of capital. It is expected that there shall be a perpetual paying in and drawing out of money; and the smaller the denomination of the notes drawn out, the more advantageous is the account to the bank. Manufacturers who pay away large sums every week in wages, linen buyers and cattle dealers, millers and provision merchants, who make their purchases in small sums, and generally all those who have quick returns of money passing through their hands, have the means of making a cash credit profitable to the bank. On this subject I again quote the evidence:—

"To secure to the bank the advantages of circulation, which is to make it worth while to afford these facilities at so little expense to a customer, he, on his part, is to lose no opportunity of bringing to the bank, and thus withdrawing from circulation, the notes of every rival bank which comes into his hands in the course of his transactions; or of paying away, and thus introducing into circulation, as many of the notes of the bank as his transactions admit of, always £1 notes if possible. The payments and receipts must be frequent, for in this consists the banker's profit, inasmuch as the payments are uniformly made by him in his own notes, and the receipts are generally, in a very great degree, in the notes of other banks. Thus, supposing a shopkeeper to have a credit for £50 or £100, if his receipts and payments average £5 per day, he may, in six months, or 150 days, have placed 750 of his banker's £1 notes in circulation.

"It is quite necessary, in order to render a cash account

beneficial, that there should be repeated and continued operations upon it; that the transactions should be numerous; that there should be a continual drawing out and paying in of money; and that, by these means, a circulation of the bank notes may be promoted; otherwise the account is withdrawn, and the great reason of this is, that these accounts are not intended to form dead loans, but to be productive of circulation to the bank.

"The explanation of the cash credit system is this:—The bank who first opened a cash credit opened it with an individual shopkeeper. He received payment of his goods in the currency of the country. Previous to that system, he used to put his currency into his drawer, £8 or £10, or whatever it was. If people brought him larger money to pay for his goods, he returned those people change; or if he did not, he kept it until he wanted to purchase for himself. But after the banker had explained to him what he wished him to do, when the shopkeeper received the currency of the country, instead of putting it into his till, he looked to the banker's shop as his till, and handed it over to the banker, and left his own till with only the change which he could not do without. Then, when he required sums to pay away, instead of taking them from his till, he sent to the bank, and took from it what he required, the banker giving him his own notes. So much of the previous currency was thus removed, and the banker's notes taken in its place. That was the effect of the first operation, when the thing was only in so simple a state that there was only the notes of one bank and a metallic circulation. If you apply the same principle where there are thirty banks, the result would be the same. The amount of the circulation of the country continues the same, but the proportions between its parts vary."

Deposits.—A sum of money deposited or placed in a

bank is called a deposit. Most banks grant interest on these deposits, but some do not. The Scotch banks have carried this practice to the greatest extent, and the deposit system forms a very important branch of the banking system in Scotland.

Those regulations which the banks have established as the rule of the transactions between themselves and the depositors are the following :—

The depositor may place in the bank any amount of money he pleases above £10.

The whole or any part of the deposit may be withdrawn at the pleasure of the depositor without previous notice.

Interest is allowed on the deposit from the day it is lodged in the bank until the day it is drawn out. Provided, that is, it has been allowed to lie a month, no interest being paid upon a sum deposited for a shorter period.

The balance of a current account is allowed interest at the rate of $\frac{1}{2}$ per cent. less than if it were a permanent deposit, when calculated on the minimum for the month, or one per cent. less when calculated on the daily balance.

The following are the advantages ascribed to the deposit system :—

1. The system of deposits is advantageous to the lower classes—in providing a place of safety for their deposits—in granting them interest on their savings—in encouraging habits of frugality—and thus often enabling them to advance in society.

"The deposit branch divides itself into two parts :—There is, first, what is called a running account, where the party pays in from day to day the whole surplus funds in his hands, and on which he receives interest. These depositors are, in general, shopkeepers, and merchants, and

traders, more particularly in large towns; and in these deposit accounts there is found at their credit, at the close of every day, the whole amount of the money for which they have not immediate employment in their trade. The second branch of deposits consists of small sums placed in the hands of the bank at interest, which have been in general the savings of their industry, and which are put into the hands of the bank to accumulate, and on which they may operate not in the way of a running account. They may receive a partial payment whenever they please; but in general these deposits are very seldom removed, excepting when an individual has occasion to build a house or begin business. This class of deposits is distinguished from running accounts by the name of deposit receipts." [1]

"What class of the community is it that makes the smaller deposits? — They are generally the labouring classes in towns like Glasgow. In country places, like Perth and Aberdeen, it is from servants and fishermen, and just that class of the community who save from their earnings in mere trifles small sums till they come to be a bank deposit. There is now a facility for their placing money in the provident banks, who receive money till the deposit amounts to £10. When it amounts to £10 it is equal to the minimum of a bank deposit. The system of banking in Scotland is just an extension of the provident bank system. Half-yearly or yearly these depositors come to the bank, and add the savings of their labour, with the interest that has accrued from the previous half-year or year, to the principal. And in this way it goes on, without being at all reduced, accumulating, till the depositor is able either to buy or build a house, when it comes to be one, two, or three hundred pounds, or till he is able to com-

[1] Lords' Report, p. 80.

mence business as a master in the line in which he has hitherto been a servant. A great part of the depositors of the bank are of that description; and a great part of the most thriving of our farmers and manufacturers have arisen from such beginnings. And in regard to the deposit receipts, I may just mention what is generally the way in which they are granted. To-day a person from the country appears at the bank, it may be with £20 or £30 or £50. We probably never see him again till that day twelvemonth, but we are sure of seeing him about that very day. If he has £20 in the bank, he may come and say, 'There are four guineas; you will give me a receipt for £25.' He knows well that the £20 has earned 16*s.* interest; and I do consider that the four guineas are just the savings of the year. He goes away with his new receipt, and returns on that day twelvemonth; then again it is added to, and thus accumulated—and so in many instances throughout the country." [1]

2. The system of deposits is advantageous to capitalists in furnishing them with a secure mode of employment of capital, either for a longer or a shorter period, at their pleasure.

"What class of persons form the large and steady depositors in the Scotch banks?—The middling and the lower order of society, industrious poor people, who are saving their money, and small capitalists who have raised a moderate sum of money, upon the interest of which they live.

"Do many persons live upon the interest of their deposits, as far as you know?—Yes, a great many." [2]

"Do you know whether it is the practice of persons who have small capitals in Scotland, to invest them in the public securities in London, or to deposit them with the

[1] Commons' Report, p. 159. [2] Lords' Report, p. 165.

banks in Edinburgh?—I believe, almost universally, to deposit them with a Scotch bank.

"And they live upon the interest of what they so deposit, in the manner as persons here live upon their interest on stock?—Yes; they often look to the permanent capital with a view of leaving it at their death, taking the interest during their lives." [1]

"The deposit accounts are of two kinds: one kind from the commercial people, who have large sums that they wish to keep in a disposable form, waiting an opportunity of any investment which may occur. Of the operating deposits, there are others who keep the money until a favourable turn in the Stock Exchange enables them to invest it there. And there are others, respectable householders, who keep it for the purposes of their family expenditure. I reckon that these and the sums due upon them average one-half of the aggregate amount of a bank's deposits." [2]

"Have you formed any estimate of the amount of deposits in all the banks in Scotland?—I certainly have been at very great pains to get information upon the subject; and I am satisfied that the amount is considerably above twenty millions—I should say, twenty-five millions.[3]

"From what class of persons are those deposits chiefly?—Generally from industrious tradesmen, small shopkeepers, varying from £10 to £500. The greatest number of deposits, and the greatest in their aggregate amount, are in small sums.[4]

[1] Commons' Report, p. 124. [2] Lords' Report, p. 183.

[3] The amount at present deposited with the banks in Scotland, in permanent deposit and current accounts, is upwards of seventy-five millions (December, 1880).

[4] As bearing upon this, we may observe that during the liquidation of

"Are there not, however, deposits from richer classes, and each of them to a much larger amount?—Certainly, there are deposits from £1,000 to £20,000 and £30,000." [1]

"In the spring of 1824, the banks in Scotland began, in some instances, to decline accepting deposits at all. In the autumn of 1824, the great banks made an express rule that they would not accept more than £5,000 from any one depositor. They allowed 2½ per cent. on the first £3,000, and 2 per cent. upon the remainder of the £5,000, and above that they would not allow any interest. That was the general rule with the great banks at that period. There were many people who preferred leaving their money, though they received little or no interest, to taking it away. That commenced in 1825." [2]

3. The system of deposits is advantageous to the country—by augmenting the amount of national capital—by increasing the demand for labour—by granting facilities to trade and commerce—and by removing the temptations to engage in hazardous speculations and foreign investments.

"This system was adopted before the middle of the last century. The rate of interest allowed since then has been regulated by the value of money, and has, of course, fluctuated considerably; but it has ever been such as to afford as high a return to the depositor as has been consistent with the reasonable profit, and of course the security of the bank. The effect of this system has been to encourage and to afford the means of the accumulation of capital among the lower, as well as the higher orders, by placing within the reach of all, a convenient, safe, and moderately profitable investment of money, and to offer an induce-

the City of Glasgow Bank it was found that 45,000 depositors had deposited on deposit or current account an average amount of £30 each.

[1] Lords' Report, p. 231. [2] Ibid. p. 158.

ment to capitalists to retain their accumulations in Scotland, notwithstanding the opportunities or temptations which foreign investments might hold out." [1]

"The system of deposit accounts, I think, is a very great stimulus to the habits of industry and economy and frugality in Scotland. The whole surplus capital of the individual is thus rendered productive.

"Under the system on which you conduct your business, is not the money arising from those deposits issued out, to encourage the farther consumption of labour in the country?—Yes.

"It would be a loss, then, to the country, if it was to be removed from the channel in which it is now placed, into this country, on Government debentures?—It certainly would.

"Under this system, does not the poor workman gain immediate interest for his saving, whilst the saving is immediately employed through the bank in putting a farther portion of labour into motion?—Precisely so. It is in this way that the wealth of those individuals is concentrated, and through the agency of the bank is brought to bear in carrying on the business of the country." [2]

"Is there not an advantage to the public from the gathering of those small capitals together, forming part of the deposits of the bank, and so being sent out again in large sums, like other capitals, for the purpose of being applied to increase the powers of productive industry?—The Scotch banks form a sort of reservoir for receiving the small sums of capital scattered throughout the community, and then sending them forth into channels of trade, so as to promote the commerce, manufactures, and agriculture of the country." [3]

[1] Lords' Report, p. 175. [2] Ibid. p. 283.
[3] Commons' Report, p. 203.

"Are you of opinion, that if the deposits with the banks of Scotland were considerably lessened, the banks could afford the same accommodation by discounts which they do at present?—I should think that is impossible, because it forms part of their capital. It would diminish the capital which is at present employed in that business, of which discounting forms a great part.

"Would not any such diminution of discount operate injuriously to the general trade of the country?—The want of those discounts must diminish the trade of the country, inasmuch as the manufacturer or merchant receives his money at least three months sooner by discounting his bills, than he could possibly get payment of his account." [1]

"The system of deposits forms a great part of the funds arising from our banking system. It is a great deposit of money which is given out to the trade of the country, for the profit of one per cent., for which the bank runs the risk of its business. If that great deposit were withdrawn, and could not be issued with the same degree of safety, I conceive the consequences would be a total derangement of the whole system, and ruin of our country." [2]

"If the banks are under the necessity of reducing the interest on deposit accounts, the depositors must look about them and find out on what security they can lend their money so as to obtain a higher rate of interest. It would certainly diminish the capital of the trading part of Scotland, inasmuch as the banks would not have it in their power to assist them in trading by discounting; but it might be lent on Government securities or landed property, and the temptation of a higher interest from individuals would, undoubtedly, be a temptation to many—and a temptation that could scarcely be resisted by those

[1] Lords' Report, p. 266. [2] Ibid. p. 235.

whose income depends entirely upon the interest of that lent money—to lend it on personal and doubtful security.

"When the banks reduced their interest some time ago, a great part of the deposits was drawn out, to be invested in various different ways. And as the depositors did not get from the banks the interest on which they were depending, and did not choose to take a less interest, many of them went into schemes, which have turned out very ruinous to them. It has been one great cause of over-speculation, that the people did not get the interest they had been accustomed to from the banks. They, therefore, drew it out to invest it in joint-stock companies, lent it to builders, or other inferior securities, or became builders themselves." [1]

4. The system of deposits is advantageous to the banks —by inducing every person to deposit his money in a bank —by furnishing the banks with capital to carry on their business—and by putting in circulation a large amount of their notes.

"The universal practice at Glasgow is, to pay into the bank with which the individual transacts his business, the whole of the notes he has in his possession, or nearly the whole, every day." [2]

"Unquestionably, the giving of interest upon deposits is an inducement to every person that has any surplus money in his hands, to place it in the hands of his banker. And in the same way in the case of cash accounts, every payment by the holder of a cash account into the bank, either diminishes the interest he has to pay to the bank, or if the account should turn in his favour, enables him to get interest from the bank, and that is a great inducement for every person to pay in daily into his banker's hands

[1] Lords' Report, p. 250. [2] Commons' Report, p. 50.

all the money which he does not require for the purposes of his business." [1]

"The means of a bank I conceive to consist of three things—first, capital paid in its own stock—secondly, the notes which the bank is able to keep afloat in the circle—thirdly, the amount of the deposits." [2]

"And if the amount of deposits were lessened, in that case their means of issuing money upon discount would be proportionably lessened?—Yes." [3]

"Every bank constituted as the banks of Scotland are, makes advances in two ways.—They make them upon cash credits, and they make them upon the discount of bills. They also borrow in two ways.—They borrow upon deposit receipts, and they borrow also upon accounts current. That is, if a gentleman opens an account, and puts £100 to his credit, and operates upon it, drawing out a part of it, leaving a balance in the hands of the bank, then there is a borrowing to the extent of the balance that is so left. Those accounts we do not allow to be overdrawn, so that the advance is in two ways, and the borrowing in two ways—that is, in two different forms." [4]

"In the case of small depositors, a considerable part of the profit arising from the deposit of that money is the circulation of the notes. When a depositor withdraws his money from the bank he receives it in the notes of the bank, and, of course, they go into circulation. As long as they remain out they are a source of profit." [5]

"The banks issue their notes two ways; they make advances upon cash accounts, and they make advances upon discounts. They also issue their notes in payments

[1] Commons' Report, p. 201.
[2] Lords' Report, p. 195.
[3] Commons' Report, p. 150.
[4] Commons' Report, p. 180.
[5] Ibid. p. 45.

upon accounts current, and also in the repayment of deposit receipts." [1]

"The deposit and cash accounts are the instruments for supporting our circulation, and without the continued operations upon the deposits and cash accounts our circulation cannot be maintained." [2]

Rules to be observed at the Exchanges of Notes and General Settlements of Balances between the Banks in Edinburgh.

I. There shall be exchanges of notes, and general settlements of these exchanges, and of the Clearing-House, as follows:—

Exchange of Notes.	General Settlement of Exchanges and Clearing.		
	On	To include	
		Notes.	Clearings.
Daily, except Monday, at 10 A.M.	Monday at 2 P.M.	The Notes of Thursday and Friday, and the large Notes of Saturday; also the Glasgow and Country Exchanges of Saturday.	Friday, Saturday, and Monday.
Also on Saturday, at 1.30 P.M., for large Notes only.			
	Thursday at 2 P.M.	The Small Notes of Saturday, the Notes of Monday, Tuesday, and Wednesday; also the Country Exchanges of Wednesday, and the Glasgow and Leith Settlements of Thursday morning.	Tuesday, Wednesday, and Thursday.

[1] Lords' Report, p. 236. [2] Lords' Report, p. 135.

The general settlements shall be made by the clearing clerks.

II. When Monday is a holiday, the general settlement shall be made on Tuesday, but there shall be no exchange of notes on that day; when Thursday is a holiday, the general settlement shall be made on Friday; when Saturday is a holiday, there shall be an exchange on Friday afternoon.

When the Term Day falls on a Saturday, the exchange shall meet in the afternoon, at such hour as may be agreed upon.

III. The clerks shall be in attendance punctually at the hours stated, *fifteen minutes* after which the doors are to be closed, and the notes in the hands of the banks not represented excluded until next exchange. Such banks shall, however, retire, in accordance with Rule VII., the notes brought into the exchange against them by other banks.

IV. Each bank shall be represented by at least two clerks. On arriving at the Exchange Room, one of the clerks shall deliver the notes, and the other clerk shall remain in the box to receive the notes from the other banks. Unless there is a clerk to receive them, on no account shall any notes be passed through the wickets. No one shall enter the box of another bank,—the door must be kept locked.

V. The clerks from each bank shall *all* remain in the Exchange Room until the whole of the notes received by them have been counted, and at least one clerk from each bank shall remain until the whole of the notes delivered by that bank have been counted. The notes received from any one bank shall not be mixed with those received from the other banks, until they have been found to agree with the specification received along with them. In case of a

dispute arising on any occasion as to the amount contained in any parcel of notes, received or delivered by a bank which has infringed the rules in this clause, such bank shall, in the absence of conclusive evidence in its favour, be held to be in the wrong.

To prevent any undue delay in counting the notes, each of the banks shall provide a competent staff for that purpose, to the satisfaction of the settling bank of the day.

VI. The settlements shall be undertaken each alternate month by the Bank of Scotland, and by the Royal Bank of Scotland; but neither bank shall be held to incur any responsibility in respect of these transactions.

On Monday and Thursday, the balances shall be included in the general settlement of the exchange and clearing. On Tuesday, Wednesday, Friday, and Saturday morning, unless when a general settlement falls on any of these days, the exchange balances shall be combined with the general balance of the clearing of the same day. On Saturday afternoon the settling bank shall grant and receive vouchers for the balances, which shall be carried into the next day's clearing, and shall bear interest at the fixed rate of 2 per cent.

VII. When the balances of the general settlement have been struck, the settling clerk of the day shall at once enter the particulars in a record provided for that purpose, and the banks who are debtors in the settlement shall, on the same day before the close of business, send to the banks who are creditors, letters intimating that in four days thereafter the respective amounts due will be transferred to their credit in London. The debtor banks shall, on the settling day, pay in cash to the respective banks to whom such letters are addressed, four days' interest on the amounts, at the rate of 3 per cent. per annum.

VIII. In the event of the amount of any transfer by

advice not being duly paid in London, without prompt and satisfactory explanation of the cause, the bank issuing such intimation of transfer shall be immediately excluded from the Exchange Room and Clearing-House.

IX. When exchanges are established in provincial towns, the exchangeable notes received at the agencies must be exchanged there; and must, under no pretext, be forwarded to meet the exchanges in Edinburgh, or at the other agencies.

X. It is further understood and agreed, in consideration of the circulation of each bank (other than what may be issued against gold and silver coin) being fixed and limited by the Act 8 and 9 Vict., cap. 38, that the banks shall bring to the Exchange Room regularly, at their head offices and agencies, all the exchangeable notes which they receive; and that under no circumstances shall any of the subscribing banks issue the notes of another bank of issue in Scotland, without permission first asked and obtained.

XI. The vouchers of the Glasgow exchanges shall be conveyed by railway guard; and the letters containing the vouchers shall be delivered by the guard to the Clearing-House messenger, to be delivered by him personally at the banks to which they are addressed in Edinburgh.

XII. The record of the general settlements shall be open for the inspection of any of the subscribing banks, at such times as may be convenient.

XIII. Any of the parties to this agreement shall be entitled to withdraw from it on giving three months' notice.

For the BANK OF SCOTLAND, James A. Wenley, Treasurer.

For the Royal Bank of Scotland, J. S. Fleming, Cashier.

For the British Linen Company, James Syme, Manager.

For the Commercial Bank of Scotland, A. K. Mackenzie, Manager.

For the National Bank of Scotland, W. J. Duncan, Manager.

For the Union Bank of Scotland, Charles Gairdner, General Manager.

For the Clydesdale Banking Company, George Readman, General Manager.

Edinburgh, March, 1880.

Rules to be observed at the Edinburgh Clearing-House.

I. The Clearing-House shall be opened every business day, except Saturday, at one o'clock, and closed at fifteen minutes past one, *after which no documents shall be received.* On Saturdays, the Clearing-House shall be opened at eleven o'clock, and closed at fifteen minutes past eleven.

II. The Clearing-House shall not be opened on Bank holidays. On half-holidays it shall be opened at ten o'clock, and closed at fifteen minutes past ten.

III. Each bank shall be represented at the Clearing-House by a competent clerk, who shall deliver and receive the documents referable to his bank. An assistant clerk shall also attend when required, that there may be no delay in closing the clearing.

IV. Each clerk shall be furnished with a set of books for the various banks, in which the documents delivered by him shall be entered and summed before he goes to the Clearing-House, and he shall hand to each of the other banks a duplicate list along with the documents delivered.

He shall also be furnished with a book in which he shall strike the balances for or against the other banks, and he shall not leave the Clearing-House until the general balance is completed.

V. Besides orders payable on demand at the banks in Edinburgh (including district branches), and bills domiciled with the head offices of the banks in Edinburgh, orders or bills payable elsewhere in Scotland, and requiring to be cashed by the banks with each other, may be passed through the Clearing-House. Although the general rule is to pass all clearing documents through the Clearing-House, it shall be in the option of each bank to collect any such documents in cash.

VI. Each document shall be sufficiently discharged before being sent in, and shall bear a Clearing-House stamp containing the name of the bank to which it belongs and the date of clearing, in addition to which, if it has been cashed at a district branch, it shall bear the stamp of that branch.

VII. Documents passed through the Clearing-House, payable at the district branches of banks in Edinburgh, shall be forwarded in time for presentation the next morning.

VIII. Documents drawn on the head office of any bank, which are not duly honoured, shall be returned on same day, by messenger to the head office of the bank at which they were cashed, by three o'clock on ordinary days, and 12.30 on Saturdays, and shall be repaid in cash. Documents payable at the district branches, which are not duly honoured, shall be returned through the Clearing-House on the day after that on which they were cleared; or it shall be optional to return any such document direct by messenger to the office at which it was cashed, provided this be done before the hour of clearing, on the day after

that on which the document in question was passed through the Clearing-House.

IX. All documents returned unpaid shall have a written answer appended, stating the cause of dishonour.

X. The banks agree to dispense with the endorsement of country exchange vouchers, passed through the clearing.

XI. The Bank of Scotland and the Royal Bank of Scotland agree to undertake the settlement of the clearings each alternate month. On Monday and Thursday, the balances shall be included in the general settlement of the exchange and clearing, the odd shillings and pence being accounted for in cash. On other days, the settling bank will receive from those banks which are *debtors* on the settlement, in which shall be included the balance of the note exchange, and give to those which are *creditors*, exchange vouchers for the respective balances, including the odd shillings and pence, within one hour after the closing of the Clearing-House, and these vouchers shall be brought into the next clearing, and shall bear interest from the date of delivery till the date of that clearing at the fixed rate of 2 per cent., which shall be included in the voucher given for the balance.

The rules for conducting the general settlement of the exchange and clearing are laid down separately.

Neither the Bank of Scotland nor the Royal Bank of Scotland shall incur any responsibility whatever in respect of these transactions.

XII. All expenses connected with the Clearing-House shall be borne by the banks in equal proportions and shall be paid by them half-yearly.

For the BANK OF SCOTLAND, James A. Wenley, Treasurer.

For the Royal Bank of Scotland, J. S. Fleming, Cashier.

For the British Linen Company, James Syme, Manager.

For the Commercial Bank of Scotland, A. K. Mackenzie, Manager.

For the National Bank of Scotland, W. J. Duncan, Manager.

For the Union Bank of Scotland, Charles Gairdner, General Manager.

For the Clydesdale Banking Company, George Readman, General Manager.

Edinburgh, March, 1880.

SECTION XXXIV.

THE IRISH BANKS.

THE last Act of Parliament for regulating banks in Ireland is the 8 & 9 Vict. cap. 37, passed in the year 1845.

This Act recites that by the Act 21 & 22 Geo. III. an Act was passed for establishing a bank by the name of the Governor and Company of the Bank of Ireland ; and which prohibited any other company consisting of more than six persons to issue notes payable on demand or within any time less than six months. That by the Act 1 and 2 Geo. IV. cap. 72, other companies consisting of more than six partners might issue notes payable on demand, at a greater distance than fifty miles (Irish) from Dublin. And that by 6 Geo. IV. cap. 42, and 1 Wm. IV. cap. 32, such co-partnerships of bankers might transact certain matters of business by agents in Dublin, including the payment though not the issue of notes.

The Act farther recites that the Bank of Ireland had at various times advanced for the public service the several sums of £600,000, £500,000, and £1,250,000, late Irish currency ; and that by the 48 Geo. III. cap. 103, the charter of the Bank of Ireland was extended to the 1st day of January, 1837—upon twelve months' notice to be published in the "Dublin Gazette," and after the repayment of the above-mentioned sums. And that by the Act 1 and 2 Geo. IV. cap. 72, the Bank of Ireland had agreed to advance a further sum of £500,000, and the bank was em-

powered to enlarge its capital to £3,000,000; making the total advances £2,850,000, late Irish currency, equal to £2,630,769 4*s*. 8*d*. sterling money of the United Kingdom of Great Britain and Ireland; on which by the Act 3 and 4 Vict. c. 75, the bank received an annuity from the Government of £115,384 12*s*. 4*d*. sterling, payable on the 5th of January and 5th of July in each year, redeemable upon six months' notice, to be given after January 1st, 1841, and after payment of the above-mentioned sums.

The Act farther recites that the above annuity of £115,384 12*s*. 4*d*. has, with the consent of the said governor and company, been reduced to £92,076 18*s*. 5*d*., being at the rate of 3½ per cent. per annum on the capital sum of £2,630,769 4*s*. 8*d*., which capital sum shall not be repaid until the expiration of six months' notice, to be given after January 1st, 1855; and that, during such term, the said governor and company shall manage the public debt free of all charge. The company is to continue a corporation, for the purpose of carrying on the business of banking, but not to have any exclusive privileges. The charter to continue until the expiration of twelve months' notice to be given and published in the "Dublin Gazette," after January 1st, 1855, and upon repayment of the sums due from the Government to the bank.

The Act removes, from the 6th day of December, 1845, all restrictions upon banks having more than six partners issuing notes and carrying on business in Dublin and within fifty miles thereof. But no banker shall issue any larger amount of notes than the average amount he had in circulation during the year ending the 1st day of May, 1845 (which amount shall be certified by the Commissioners of Stamps), and the amount of gold and silver coin he may have in his hands, in the proportion of not more than one-fourth of silver to that of gold.

In case two banks should unite, the new bank to have the power of issue to the amount of both the united banks. Any bank may arrange with the Bank of Ireland to give up its issue, and in that case the Bank of Ireland may increase its issue to that amount. But the bank that thus contracts shall not afterwards resume its issue. All notes for a fractional part of a pound are prohibited. Each bank issuing notes is required to send to the Stamp Office weekly returns, stating the amount of notes in circulation on each Saturday, distinguishing those below £5; and also the amount of gold and silver coin held at each of the head offices or four principal places of issue in Ireland. And from these returns the Commissioners of Stamps and Taxes shall make a monthly return, which shall be published in the "Dublin Gazette." This monthly average must not exceed the amount certified by the commissioners and the amount of gold and silver on hand.

All banks are required to send a list of their shareholders to the Stamp Office every year, between the 1st and the 15th of January, to be published in the "Dublin Gazette" before the 1st day of the succeeding March. All banks, whether they issue notes or not, are entitled to sue and be sued in the name of their public registered officer.

Upon the Act of 1845, for the regulation of banks in Ireland, we may observe:—

1. The authorized issue is, like that of the banks of Scotland, the average amount of the year ending on the 1st day of May, 1845.

2. If any two banks unite, the new bank may issue to the amount of the circulation of both the united banks. Here the law is the same as that of Scotland, but different from that of England.

3. If any bank gives up its issue, and agrees to issue

Bank of Ireland notes, the Bank of Ireland may increase her authorized issue to the full amount of the issue of the bank whose notes are withdrawn. In England, the Bank of England can, in a similar case, issue only to the extent of two-thirds of the issue of the bank whose notes are withdrawn. There is no similar provision in the Act referring to Scotland.

4. Another difference may be noticed between Ireland and Scotland. All the notes issued at the branch banks in Scotland are payable only at the head office of the bank that issued them. In Ireland, by the Act 9 Geo. IV. c. 81, all notes must bear to be payable at the place or places where they have been issued or reissued. Hence the banks in Ireland must keep some gold at every branch, while the banks in Scotland need not have any gold except at the head office. In both countries, the banks must hold a stock of gold equal to the amount of notes in circulation beyond the authorized issue; and, according to the Act, this gold must be at the head office, or chief places of issue. The gold held at the branches, however necessary for business purposes, is not taken into account in the returns to the Stamp Office. The banks, indeed, return the whole amount of the gold in their possession; and it is this which is published in the newspapers. But the amount held against the excess of authorized issue must be held at the chief office, or at four chief places of issue. In the Provincial Bank of Ireland these places are Cork, Limerick, Dublin, and Belfast.

The Bank of Ireland is a chartered bank, like the Bank of England. It is the Government bank. It issues notes and has branches in the principal towns throughout Ireland. It has now no exclusive privileges.

In tracing the history of banking, we may observe that most public banks have been formed, in the first instance,

under the protection of the Government of the State in which they were established. Such was the case with the Banks of Venice, Genoa, and Amsterdam; and such, too, was the case with the Banks of England, of Scotland, and of Ireland. The former were closely connected with the State, and may properly be called "State Banks;" the latter had peculiar privileges bestowed by charter, and are usually called "Chartered Banks." These privileges may be divided into two classes, those which refer to the proprietors themselves, and those which refer to other parties. The privileges of the first class relate to the amount of capital, the form of government, the number of directors, and the mode of their nomination, the meeting of the proprietors, and the specification of the branches of business the banks are allowed to carry on. The privileges of the second class refer to the restricted liability of the shareholders, and the prohibition of other parties carrying on the same business.

If the charters granted to banking companies conferred only the first class of privileges, they would be liable to but little objection. In the infancy of commerce and of banking, the assistance of the Government may with propriety be granted to encourage the formation of institutions so eminently calculated to promote the public advantage. But of what avail are prohibitory clauses? If no other persons are disposed to form similar institutions, then those prohibitions are a nullity. But if other parties are disposed to form similar companies, without the assistance of the Government, then why should the Government interfere at all? Why should they grant a charter to effect an object which can be effected without their assistance?

In the charter first granted to the Bank of England in 1694, there was no prohibitory clause. But when the

charter was renewed in 1708, it was enacted that no other company formed of more than six persons should carry on the business of banking in England. The charter granted to the Bank of Scotland in 1695, contained the following prohibition:—"That for the period of twenty-one years from the 17th of July, 1695, it should not be lawful for any other persons to set up a distinct company or bank within the kingdom of Scotland." This privilege was not renewed after the expiration of the twenty-one years; and in the year 1727 a charter, without any prohibitions, was also granted to the Royal Bank of Scotland. In the year 1746 the British Linen Company was formed, and carried on the business of banking as a joint-stock company. Subsequently this bank also obtained a charter, but without any exclusive privilege. Hence Scotland has had the advantage of chartered banks, and joint-stock banks, and private banks, all working well together, without producing those effects which in this country have followed the prohibitory clauses of the charter of the Bank of England.

Both in its constitution and government the Bank of Ireland closely imitated the Bank of England; and it has produced in Ireland most of the advantages and evils which that establishment has produced in this country. It has supplied the country with a currency of undoubted solidity; it has supported public credit, it has granted facilities to trade, and it has assisted the financial operations of the Government. On the other hand its prohibitory clauses necessarily led to the formation of many private banks, whose failure was the cause of immense wretchedness to all classes of the population.

The charter of the Bank of Ireland contained a clause which prevented more than six persons forming themselves into a company to carry on the business of banking

in Ireland. In the year 1824, they surrendered this exclusive privilege, as far as regards those places which are situated at a greater distance than fifty Irish miles from Dublin; and in 1826, the Bank of England made a similar surrender, with regard to places at a greater distance than sixty-five miles from London. As eleven Irish miles are equal to fourteen English miles, fifty Irish miles are equal to about sixty-five English miles. But it must be observed, that Dublin is situated on the sea-coast, therefore, the Bank of Ireland had only the monopoly of a semicircle, whose radius is fifty Irish miles. But London being situated inland, the Bank of England had the monopoly of a whole circle of 130 English miles in diameter.

The Bank of Ireland was established by an Act of Parliament passed in 1782, 21 and 22 Geo. III. cap. 16. The following are the provisions of this Act:—

The capital was £600,000, which was lent to Government at 4 per cent. No one person was permitted to subscribe more than £10,000. If the bank incurred debts to a greater amount than their capital, the subscribers were answerable in their private capacity to the creditors in proportion to their subscriptions. The bank were not either to borrow or to lend money at a higher interest than 5 per cent., nor to engage in any business but banking. The stock to be transferable and deemed personal estate, and as such to go to the executors of the holders, and not to their heirs. No transfer of bank stock to be valid, unless registered in the bank books in seven days from the contract, and actually transferred in fourteen days; the charter to expire at twelve months' notice after the 1st day of January, 1794, and repayment of all sums due by the Government to the bank.

The charter is dated May 15, 1783, and contains as follows:—Such persons as should subscribe before January 1,

1784, the sum of £600,000, were to be formed into a corporation, to be styled the Governor and Company of the Bank of Ireland. The corporation were to have a governor, deputy-governor, and fifteen directors; which governor, deputy-governor, and directors, or any eight or more of them, shall be called a Court of Directors, for the management of the affairs of the corporation.

Fifteen directors shall be chosen annually, between March 25 and April 25 in each year, and not above two-thirds of the directors of the preceding year to be re-elected.

The notice for the meeting of general courts of proprietors to be affixed upon the Royal Exchange in Dublin at least two days before the time of meeting. The qualification for a voter at a general court shall be £500 stock, to be held for six months preceding, unless it came by will, marriage, &c. The qualification for governor shall be £4,000 stock, and for deputy-governor £3,000, and for director £2,000.

No dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce, arising by or out of the said capital, stock, or fund, or by such dealing, buying, or selling, as is allowed by the said Act of Parliament; nor without the consent of the members of the said corporation, in a general court qualified to vote as aforesaid.

The governor, or deputy-governor, shall summon four general courts at least in every year. One in the month of September, one in December, one in April, and another in July.

The governor or deputy-governor shall also summon a general court, whenever requested to do so by nine members, each holding £500 stock.

If governor and deputy-governor be absent one hour

after the usual time of proceeding, at any general court or court of directors, a chairman shall be chosen for that time only, who shall have like privileges as the governor or deputy-governor.

Governor, deputy-governor, or chairman, not to vote in general courts, or court of directors, save when there shall happen to be an equal number of votes on each side.

The Bank of Ireland commenced business at St. Mary's Abbey, June 25, 1783. After the Union, its office was removed to the Parliament House.

In the year 1821, the capital of the Bank of Ireland was increased from £2,500,000 to £3,000,000 Irish currency. The additional sum of £500,000 was taken from the bank's surplus fund and lent to the Government at 4 per cent., to be repaid by the 1st January, 1838. The increased capital was divided among the proprietors, at the rate of £20 for every £100 they possessed. In consideration of this increase of capital, the bank consented to a clause in this Act, whereby persons in partnership, residing fifty miles from Dublin, might carry on the business of banking, although such partnership might consist of more than six partners; but that such partnership should possess no other privilege than being allowed to sue and be sued in the name of a public officer, should Parliament hereafter think fit to grant such a power. This privilege was of little practical use, for, according to the construction put upon the Act, it required that all the partners in these banks should reside in Ireland.

In this year an Act was passed (5 Geo. IV. cap. 73), "to relieve bankers in Ireland from certain restraints imposed by the provisions of the 29 Geo. II., and to render all and each of the members of certain co-partnerships of bankers, which may be established, liable to the engagements of

such co-partnerships, and to enable such co-partnerships to sue and be sued in the name of their public officer."

Those clauses in the former Act that required the names of all the partners to be subscribed to the notes, and which prohibited bankers being traders, are by this Act repealed. Banking partnerships exceeding six persons, and carrying on business at any place beyond fifty miles from Dublin, shall be registered at the Stamp Office, Dublin; and also the names of the public officers in whose names such partnerships sue and are sued. The names of those public officers were also required to be subscribed to all notes and receipts issued by the company. Judgments against the public officers to operate as judgment against the partnership, and execution upon judgment may be issued against any member of the society, and the public officer to be saved harmless.

In the year 1825 was passed the "Act for the better regulation of co-partnerships of certain bankers in Ireland." It was obtained by the directors of the Provincial Bank of Ireland, as the Acts previously granted did not furnish the facilities which the Provincial Bank required for the beneficial exercise of its operations. It confirmed the permission granted by former Acts to establish joint-stock banks at a greater distance than fifty miles from Dublin, and permitted persons resident in Great Britain to become shareholders in such banks. The banks were required to register at the Stamp Office in Dublin an account of the names of the firms, the several partners therein, and the public officers thereof. The partnerships shall sue and be sued in the name of their public officers. Parties obtaining judgments in Ireland may authorize the acknowledgment of like judgment in Great Britain; and, in like manner, parties obtaining judgment in Great Britain, may proceed thereon in Ireland. Judgments against public officers shall

operate against the society, and execution upon judgment may be issued against any member of the co-partnership. All transfers of shares must be registered at the Stamp Office.

In this year, too, an Act of Parliament was passed to assimilate the currency of Ireland to that of England. It is entitled, "An Act to provide for the assimilation of the currency and monies of account throughout the United Kingdom of Great Britain and Ireland." (6 Geo. IV. cap. 79.) The Act recites, that the pound sterling in Great Britain and Ireland respectively is divided into twenty shillings, and the shillings into twelve pence; but the silver coin which represents a shilling in Great Britain is paid and accepted in Ireland for thirteen pence, and the pound sterling of Great Britain is, at the par of exchange, paid and accepted for one pound one shilling and eightpence of the currency of Ireland; and that great complexity of accounts, and other inconveniences, arise from the said difference of currencies. It then enacts, that the currency of Great Britain shall be the currency of the United Kingdom, and all receipts, payments, contracts, and dealings, shall be made in such currency. And all contracts, debts, &c., made or contracted previous to the commencement of this Act, shall be carried into effect, and satisfied by payment in British currency of 12-13ths of the amount according to Irish currency. All duties and public revenues, and all funds and public debts shall be estimated in British currency, and the accounts thereof kept accordingly. After a day to be named by proclamation, British silver and gold coins shall be current in Ireland at the same rate of pence as in Great Britain. On the like proclamation, Irish copper coin shall be brought into the Bank of Ireland, and exchanged there for British copper coin, at the rate of twelve pence British for thirteen pence Irish, and the Irish copper coin shall cease to circu-

late. Bankers' notes shall be made payable in British currency. No notes payable in Irish currency shall be reissued after the commencement of this Act, under a penalty of £50 for each offence. Bankers may deliver into the Stamp Office reissuable notes, payable in Irish currency, and receive in lieu thereof new stamps to the whole amount of the stamps delivered up, if dated within one year previous, or three-fourths if within two years, and one-half if within three years. This Act came into operation on the 5th day of January, 1826.

Public banks may be divided into three classes:—first, Chartered Banks, those which have received a charter from the Crown; secondly, Joint-stock Banks formed under the common law; and thirdly, Joint-Stock Banks formed under the statute law.

The common law of England allowed any number of persons to form themselves into a partnership to carry on banking. At the same time it presented this inconvenience in the formation of such partnerships—in all actions at law it was necessary to state the names of all the individuals who composed the company. Another inconvenience of partnerships formed under the common law was, that all the partners were answerable for the debts of the company to the full extent of their property, not only while they were partners, but after they had ceased to be partners, as far as regards any transactions that took place during the continuance of their partnership. The banks avoided these inconveniences, in the first place, by conducting their business in the names of trustees, in the same way as some of the insurance companies; and in the second place, by inserting a clause in the deed of settlement, that in case the bank should lose one-third or one-fourth the amount of its paid-up capital, it should immediately be dissolved.

The statutes of 6 Geo. IV. c. 42, with reference to Ireland, and 7 Geo. IV. c. 46, with reference to England, not only repealed those Acts of Parliament which prohibited the formation of banking companies having more than six partners, but they also removed the inconveniences of the common law. It was enacted, that it should no longer be necessary, in legal actions, that the names of all the partners should be placed upon the record; but that the company should register at the Stamp Office the name of some one person in whose name they wished to sue and be sued. Any party who had a disputed claim upon the company must sue this public officer, and when he had obtained a verdict in his favour, he might issue judgment against all the partners, in the same way as though he had obtained a verdict against them all. And that he might have no difficulty in ascertaining who were or were not partners, it was required that the names of all the partners should be annually registered at the Stamp Office. The statute law also obviated the second inconvenience of the common law, by enacting that every partner, as soon as he had transferred his share, should be released from all liability as to the subsequent acts of the company, and at the end of three years he was no longer liable for any acts that took place even at the time he was a partner.

The Provincial Bank of Ireland was formed under the statute 6 Geo. IV. c. 42. Few banks have, in so short a time, advanced to so high a degree of prosperity. The circumstances of Ireland at that period were friendly to the growth of such an establishment. The recent abolition of the union duties, and the introduction of steamboats, had given a stimulus to the trade between the two countries, while nearly all the banks in the south of Ireland had been swept as by a whirlwind from the face of the land. The

operations of the bank were also facilitated by the assimilation of the currency, and the measures taken by the Government and the Bank of Ireland to prevent those fluctuations in the exchanges which had previously existed. But the prosperity of this bank must be attributed chiefly to the wisdom and prudence manifested in its constitution and in its subsequent government. The capital was raised chiefly in England, and London was, consequently, made the seat of government. The board of directors was composed of merchants and statesmen, and the latter were taken from the leading men of the two parties into which Ireland was then divided. The local government of the respective branches in Ireland was composed of directors possessing local knowledge and influence, and of managers selected for their experience in banking, and the manager had a veto upon the decision of the board. An inspector was appointed to visit the branches, and to report to the London office.

At the same time, the bank had considerable difficulties to contend against. Property in Ireland was considered insecure; political and religious feelings often interfered with matters of business; the habits of the people were not commercial; and the country had suffered so severely from private banking, that confidence was not easily acquired for a new company, the members and constitution of which were but imperfectly known. Before these difficulties had been completely overcome, the bank became involved in a competition with branches of the Bank of Ireland, and exposed to sudden demands for gold arising out of political events.

There is no joint-stock bank of whose rise and progress we have a more detailed account than the Provincial Bank of Ireland. This account is furnished to us in the evidence given before a Committee of the House of Commons by

the late secretary, Mr. James Marshall.[1] We recommend the following quotations to the especial consideration of students in practical banking, as showing most minutely the various steps by which prosperity is obtained by banking institutions.

1.—*The Constitution of the Provincial Bank of Ireland.*

"Can you explain to the committee the constitution of the Provincial Bank?—I can. I may make reference to the annual reports of the institution, copies of which, I understand, were furnished to this committee. A report is made to the proprietors on the third Thursday of May in each year.

"By whom is that report prepared?—By a special committee.

"A committee of the board of directors?—A committee of the board of directors, whom it is my duty to attend on such occasions, and to be their organ in acting as the clerk of that committee.

"When that sub-committee has prepared the report, what further step is then taken?—It is submitted then to the general court of directors.

[1] Mr. James Marshall was the accountant of the Provincial Bank of Ireland at its commencement, and in the year 1826 succeeded Mr. Thomas Joplin in the office of secretary. He retired in 1845, upon a pension of £1,000 a-year. The chairman stated to the General Meeting in 1846, that Mr. Marshall's salary was £1,200 a-year, but as £200 a-year was regarded as an equivalent for a house, the Directors considered he had retired upon full pay. The officers of the Bank subscribed to have his likeness taken, and an engraving was presented to each subscriber. After his retirement he became an auditor of an insurance office, and a director of the Oriental Bank. In the latter capacity he paid a visit to Bombay in the year 1847. He died in London on the 14th day of January, 1852.

"Is it examined by them?—By the general court; it is laid before them, and every part of it is explained to them; and they have it in their power to examine any part, to refer instantly to the books, or the source from which it is drawn. The committee in making it up go very minutely to work, and examine very particularly.

"Then are the committee to understand, that before the report is laid before the proprietors, that report is first submitted to a select committee, reported by them to the general court, and approved of by the general court?—It is. It is, in the first instance, signed by the chairman of the committee when presented to the general court.

"When laid before the proprietors, is it laid before the proprietors on the responsibility of the court of directors?—Completely so.

"Just confine yourself at present to the constitution of the bank.—It may be here proper to state, for the information of the proprietors, the regulations which have been adopted, in the first place, for conducting business in a proper manner at the branches; and, secondly, for the control and superintendence which are exercised over them by the directors in London. First, as to the branches. For the due management of the business at each a suitable house has been obtained, and the following officers have been provided—viz., manager, accountant, teller, clerk, porter, all of whom find security for their fidelity. Where the scale of business requires it, the number of the inferior officers is increased, but there are only two principal officers at any branch—viz., manager and accountant; and for securing more effectually the proper discharge of the duties of all, and assisting the manager with advice and information, there has been appointed at each station a board of local directors, consisting, according to circumstances, of three, four, or five gentlemen of the first respectability in

the place, who, in order to be eligible, must themselves have an interest in the establishment, by holding ten shares each of its stock. The duty of these gentlemen is to meet daily at a given hour at the bank's office, and, along with the manager, to judge of bills presented for discount, and of all applications for credits. For every act of business of this nature it is necessary that two local directors and the manager be present; and it is provided, that where applications for discounts or credits exceed, in individual cases, a certain fixed amount, or when the manager differs in opinion from the majority of the local board, the matter must be submitted to the decision of the court of directors in London. It is further the duty of the local directors to compare daily the vouchers with the entries in the cash-book, to count, at stated intervals, the cash in charge of the manager, and to certify the returns made periodically from the branch to London.

"Are the committee then to understand distinctly that the local directors, in the case in which the manager, who is the head officer of the society, differs with them, although he may differ singly, are bound to refer those cases to the London board before any decision is come to?—In every case.

"In another contingency it would appear, that where the pecuniary transactions in question exceeded a given amount, that, too, although the board might be unanimous, is brought under the consideration of the London board of directors?—It is.

"What does that sum generally amount to? Is it a fixed sum, or does it vary according to the circumstances of the different branches?—It has varied according to circumstances; but, generally speaking, from £300 to £500 is considered the extent to which anything in the shape of a credit, other than the discount of a mercantile bill, would go."

2.—*The Selection of Officers.*

"Be so good as to explain to the committee what steps were taken by the Provincial Bank of Ireland in the selection of their various paid officers at the branches?—I believe that is detailed in this said report. The selection of officers in particular was a matter of paramount importance, both on account of the great number required to fill the intended situations in Ireland, and the necessity there was to scrutinize their qualifications as to character and ability. Communications were made on this subject with various gentlemen in different parts of the country, from whom it was expected the best information could be obtained. The prospectus of the society having set out with the resolution that the business should be conducted on the principles which had been so long and so successfully acted upon in Scotland, it seemed desirable to obtain from that country persons trained up in banks there, provided their qualifications in other respects were such as to recommend them. With this view, the secretary (that was not myself at the time) was sent down to Edinburgh in February, for the purpose of making inquiries; and notice having been given in the public papers that persons were wanted to fill situations in the projected establishments in Ireland, a gentleman in the above city was employed to receive applications and to institute the most minute and scrupulous inquiries regarding the character and qualification of those who should apply. Another gentleman from the same city was also engaged to proceed to London, to assist the directors in the formation and prosecution of a plan for conducting the business, when they should be ready to commence it in Ireland (that alludes to myself). The extensive correspondence which the ap-

plications and inquiries, produced by the measures above mentioned, necessarily occasioned, occupied the attention of the directors very closely, and for a considerable length of time, and the result has been that the services of a number of most valuable officers have been secured to the society.

"But at that period was there a greater facility in procuring the services of gentlemen more particularly who had experience in the Scotch banking than there would be subsequently, when there was a more active competition in the establishment of banks?—No doubt of it.

"What description of security were these officers required to give?—Unexceptionable personal security; two persons, at least, generally were joined in a bond for the fidelity of the officer.

"Was there any fixed proportion between the amount of the security required and of the salary paid, or the duties to be performed?—The amount had respect to the duties to be performed rather than to the salary.

"What was the general security that was taken by bond for the fidelity of these officers?—The lowest clerk was £1,000; the highest £10,000, for a manager at the largest branch.

"And that has been enforced by the Provincial Bank with respect to its officers?—The amount of £10,000 has not been required, as we have practically found £5,000 to be a more commandable sum; I would say, within the reach of the description of parties who are aspirants to these offices.

"Now, with respect to the local directors, how were they selected?—It is mentioned here that there should be selected three, four, or five gentlemen of the first respectability in the place, of commercial knowledge, whenever those could be obtained; if having had that commercial

knowledge, and being disengaged from business, they were considered as so much the more eligible.

"But in the selection of local directors, so far from excluding persons by reason of their having commercial or banking knowledge, are the committee to understand that such parties were preferred?—Where they had it, and were not understood to be in a situation to require banking accommodation for themselves.

"You have stated that the local directors were required to take ten shares each, at the least?—Yes.

"Will you have the goodness to state what the reason was that they were required to take those shares?—In order that they might have a greater interest in the establishment; feel a personal interest. I must say we have not, in every instance, been able to get gentlemen of that description. We have, in some instances, appointed gentlemen who, from various causes, declined to become shareholders; at least, we have elected gentlemen to be local directors without requiring the fulfilment of that condition. There are some instances at present of gentlemen who are so; but no doubts regarding the solvency of the bank ever deterred any of them."

3.—*The Choice of Directors.*

"Now tell us how they are appointed?—The directors in London were, of course, originally appointed by the gentlemen who associated together for the purpose of forming this establishment; and they continued, with the approbation of the meeting, until a certain time, when, by the deed of settlement which was afterwards prepared, four were to go out every year.

"In the vacancy of the four, who appoints their succes-

sors?—The proprietors generally; the general meeting of proprietors.

"Are they re-eligible?—They are declared by the deed of settlement to be re-eligible.

"Are they recommended to the court of proprietors by the court of directors?—They are; they have been virtually so: and I beg to refer to one of the annual reports, which gives an explanation upon that point. It is in the report made the 17th of May, 1827, in which it is stated: 'The directors have now to advert to a circumstance of some importance as connected with the constitution of the society. By the deed of settlement, the number of directors was limited to twenty. Since the completion of the deed, that number has been reduced by death or resignations to sixteen; and the directors having found by experience that the latter number is quite sufficient to insure a due attendance for the efficient management of the business of the establishment, have not thought it necessary to enforce the terms of the deed by proposing the election of new members; and they think themselves now justified, by past experience, in unanimously recommending to the court of proprietors to limit the number of directors for the ensuing year to sixteen. The directors may add, that this arrangement will be attended with a considerable saving of expense; and, in conclusion, they beg to state to the proprietors an opinion in which they also unanimously concur—viz., that in future elections, it will greatly conduce to the harmony and cordiality which it is so desirable should prevail amongst the directors themselves, as well as to the good management of the bank's affairs, if a recommendation shall be made by them to the proprietors in favour of those candidates whom, after due inquiry, they shall find to be the best qualified to fill the situation.'

"Have those recommendations been generally complied with by the proprietors?—Always.

"Uniformly, without exception?—Uniformly; it has uniformly been acquiesced in. Two or three candidates had upon more than one occasion started, but when the matter was explained to them, they have uniformly acquiesced in it. It is necessary to state, to complete this, that the recommendation to limit the number of directors to sixteen was afterwards the subject of a special provision by an additional deed of the proprietors; therefore the number cannot be extended beyond sixteen without altering the deed.

"Are the directors paid for their attendance?—They are.

"What is the amount of payment which they receive?—It is so regulated that no director can receive above £250 a year, the director in London, I mean, were he attending at every possible meeting that he could.

"Is the payment an annual payment, or proportionate to the attendances?—Proportionate to the attendances, ascertained every quarter.

"According to the number of attendances, so the parties are paid?—Yes, according to the attendances.

"Was that sanctioned by the proprietors and by the society?—The deed of settlement contains a provision allowing the directors to take the sum of £5,000 as remuneration."

4.—*The Daily Committee.*

"Will you state how they transact their business?—By meeting daily in committee (a general committee), which is open to all to attend; but in order to be a quorum there must be three present; and by a weekly court, held each Friday, at which all ought to be present.

"Is there a record in writing of all the directions and the acts of that special committee?—There is.

"Are each of those acts brought under the examination and review of the general court on Friday?—At the weekly court they are; the minutes are read over.

"Is the question put upon the confirmation of those minutes, or is it open to the general court to vary or alter them?—The question is specially put by the chairman of the weekly court, whether it is the pleasure of that court to confirm the minutes of the past week which have been read.

"Have you known instances in the management of the bank in which there have been any variations upon the proceedings of the committee proposed by the general court, so as to show that it is an active as well as a theoretical superintendence?—I have seen instances where the subject has been brought under revision, and which has produced an alteration of the resolution of the committee.

"Having now explained to the committee the formation of your local administration at the branches, and your general administration in London, will you state what the course of proceeding is, to insure to the court in London a knowledge of that which takes place at the different branches?—I read from the report already referred to: 'Regular advices of the proceedings at the branches are transmitted by the managers to London by post every second or third day, according to circumstances; and at the end of each week a complete statement of the whole transactions is made up, and forwarded by the mail-coach. These returns are first examined by the officers of the London establishment, and then submitted to the directors. For giving the necessary orders arising out of these communications, for judging of all matters referred to them

from the branches, for disposing of the bank's funds in London and Dublin, and for the discharge of all other duties implied in the exercise of a superintendence over the whole establishment, whether in Ireland or in London, the directors hold regular and daily meetings.'

"Are the accounts which are sent from the branches accounts in detail of the whole of the operations of the bank?—They are.

"Are they, in fact, transcripts of the accounts of the bank from period to period?—They are so; with this explanation regarding the current accounts of parties holding accounts with the bank, every particular draft or receipt is not sent to London, or rather the entries of these, I mean, are not copied or sent to London; but there is this check on the operations of the branches, the exact balance of every man's account at the end of each week is given, and forms part of an abstract of the balance-sheet which is sent forward, and which must agree; therefore, if it were wrong, it would at once detect itself.

"Then no variation can take place in the actual balance without the attention of the court being at once called to it?—None can.

"And is the name of each individual to whom these advances are made from time to time brought under the special notice of the court of directors in London?—Yes; by the following process. The branches are divided amongst the directors, so many allotted to such a sub-committee, who take up the affairs of these branches each week in succession, and examine all the bills that have been discounted, the advances that have been made of any description, and the balance of each man's account, whether in his favour or against him."

5.—*The Inspection of Branches.*

"Have you any system of inspection by which you are enabled from time to time to verify the correctness of the proceedings of the branches?—We have. Besides having a half-yearly balance-sheet made out with all the details of the affairs of each branch at the time, and which is scrupulously examined at London, there is an inspector (two at present) whose duty it is to go through the branches and to examine personally and verify every voucher and every particular, and to remain at the branch until they are fully satisfied that all is right.

"Are the visits of your inspectors at stated and known intervals, or is any branch at any one moment liable to the visit of an inspector, and to an immediate examination and verification of their accounts and bills and balances?—Every branch is so liable to be visited; there is no previous intimation given, except the visit be for some particular purpose which, by a representation from the branch, calls on the inspector to go.

"As an additional security, have you yourself, or any of the directors, been accustomed to visit the branches, and to report thereon?—I have myself every year, and sometimes oftener than once a year, even twice or three times in a year, gone to Ireland, and have gone through the whole branches, in fact, more than once, at different times; and on all occasions have made examinations which appear to me to be necessary; and besides that, the directors have in person repeatedly visited the branches; deputations of the London directors, I mean, have so done."

6.—*The Declaration of a Dividend.*

"Will you explain to the committee what steps you take before you declare a dividend?—We have regularly a balance every half-year; the dividend has only been declared once a year, at the termination of the year, which is in March; our year ends in March. Prior to that period, each manager is directed to send up a special report of every obligation which is outstanding, or of any which is doubtful, describing particularly in the report every party to such obligation; that is preparatory to going further into the matter; then when the balance at the end of March is completed, a complete balance-sheet of every branch is made up and sent to the bank, with a more detailed report. A special committee of the directors is appointed to examine those, and they go minutely through them, and weigh every outstanding debt, and strike off everything that is considered to be irrecoverable; they then consider in what degree the reports of the managers represent every other outstanding debt to be recoverable, either in full or in part; and when all that has been done, they add generally a sum to cover still any possible omission, and it is only then that the fair profits of the year are considered to be ascertained.

"Can you inform the committee how far your calculations, your annual calculations of bad and doubtful debts, have or have not been below or above the mark?—In many instances our allowances have exceeded what has turned out to be the real loss; for, as I mentioned before, the directors, in order to be more secure, have been in the practice of making an additional deduction over all the deductions made by the officers at the branches.

"Have the proprietors any power under your deed of

settlement of naming any auditors, or having any examination of those accounts, so as to verify their fidelity?—We have no auditors, but there is a provision in the deed of settlement by which a certain number of proprietors may call for a further investigation of the accounts, if they are dissatisfied."

7.—*The Causes of its Prosperity.*

"Do you think there is anything peculiar in the construction of this bank which has insured its being correctly and well managed up to the present time, or that it has rather arisen from the 'happy accident' of the directors who were selected having been honourable and correct men of business?—I conceive the very first and indispensable thing was an exceedingly respectable board of directors formed in the first instance, and which has always been maintained. In the next place, that the system of accounting that was adopted, and the check on the operations of the different branches, which has not been departed from, has most materially contributed to that good result. In the next place, there was an exceedingly good field for banking when we commenced, for Ireland was very destitute of good banks at the time, the Bank of Ireland operations having been confined only to Dublin. Therefore, from all those concurring circumstances, I conceive the prosperity of the bank has resulted."

To these causes we may add one more, stated in the Report delivered by the directors to the proprietors in the year 1836,—the non-interference of the shareholders in the distribution of the profits:—

"To this desirable position the affairs of the bank have been conducted, as the directors have great pleasure in acknowledging, by the uniform support and continued ap-

probation of the proprietors, who, far from manifesting any impatient desire to participate in the reserved profits, have always relied with confidence on the opinion of those by whom the working of the establishment was superintended, feeling assured that whenever such participation was clearly expedient, it would not be withheld."

Laws of the Currency in Ireland.—From what we have already said of the laws of the currency, those of our readers who are acquainted with Ireland will be able to judge beforehand of the revolutions of her circulation. Being purely an agricultural country, the lowest points will of course be in August or September, immediately before the harvest, and the commencement of the cattle and bacon trade. Then it rises rapidly, till it reaches its highest point in January, and then gradually declines. As an agricultural country, we should naturally expect that during the season of increase the circulation would expand most in the rural districts; and so we find that the circulation of the Bank of Ireland, in Dublin, expands very moderately—that of her branches, which are located chiefly in large towns, expands more—while the circulation of the joint-stock banks, which are located in the agricultural districts, receives the largest increase. Again, the purchases and sales of agricultural produce are known to be in small amounts; and hence the notes of the smallest denomination receive the largest relative increase. The annual changes of the Irish circulation are governed chiefly by the produce of the harvest, and the prices of agricul tural products. These are the laws of the circulation of Ireland.

On this subject I may quote my own evidence before the Committee on Banks of Issue :—

"I have told the Committee that I was formerly manager

of a joint-stock bank of issue in Ireland, and I have attempted to discover the laws which regulate the circulation of that country, by ascertaining the highest and lowest amount of the circulation in each year. This, which I have in my hand, is a table, showing the circulation of the Bank of Ireland (including branches), the separate circulation of the branches alone, and the circulation of the Irish joint-stock and private banks, on the last Saturday of April, August, and December, of the years 1834 to 1839. It will be observed that those periods are the same as those which I have referred to in the circulation of the English country banks. The law of circulation appears to be different, but they agree pretty nearly in this, that the lowest point is the latter end of August; but the highest point in Ireland is generally the end of December or the beginning of January, and from December, or the beginning of January, it declines; so that the country circulation of England is advancing eight months and declining four; but the circulation of Ireland is advancing four months and declining eight.

"From whence is this table compiled?—From Appendix, Nos. 32 and 33. This table shows that the circulation of Dublin does not vary much; it shows that the circulation of the branches of the Bank of Ireland varies more; and that the circulation of the joint-stock and private banks in Ireland varies considerably more.

A TABLE, *showing the* CIRCULATION *of the* BANK *of* IRELAND (*including Branches*); *the Circulation of the Branches alone; and the Circulation of the Irish Joint-stock and Private Banks; on the last Saturday of April, August, and December, of the Years* 1834 *to* 1839.

I.—BANK OF IRELAND AND BRANCHES.						
	1834.	1835.	1836.	1837.	1838.	1839.
	£	£	£	£	£	£
April . .	3,922,300	3,798,500	3,614,100	3,332,300	3,398,400	3,536,400
August . .	3,452,800	3,198,700	3,133,500	2,921,600	3,055,800	2,981,800
December	3,926,800	3,574,200	3,481,100	3,265,700	3,474,500	3,192,200
II.—BRANCHES OF THE BANK OF IRELAND.						
April . .	No separate account kept at this time.			. . .	1,357,600	1,572,000
August . .				1,056,200	1,257,600	1,211,900
December				1,342,300	1,695,600	1,464,000
III.—JOINT-STOCK AND PRIVATE BANKS.						
April . .	1,386,165	1,517,648	2,083,431	1,798,724	2,366,774	2,588,377
August . .	1,140,654	1,264,572	1,928,900	1,480,240	1,881,906	1,982,122
December	1,666,269	1,959,542	1,787,586	2,204,286	2,972,034	2,629,205

"It will be observed, that in the year 1836, with regard to the joint-stock banks, there was a departure from the law, which usually increases the Irish circulation very rapidly between the months of August and December; for in 1836 the Agricultural and Commercial Bank of Ireland stopped payment; that brought on a run for gold upon the other banks, and thus the circulation of those banks became reduced. This is the only year in which there is not a very considerable increase in the circulation of the joint-stock banks of Ireland between August and December.

"To what do you attribute this uniform increase of the Irish circulation towards December?—I attribute it to the

trade in corn, and bacon, and cattle, which commences in the months of September and October in every year; the produce of the harvest commences to be brought to market in September; but the bacon is made in the beginning of October. The bacon must be made in cold weather, and therefore pigs are reared so as to be fit for killing by the 1st of October; and in the beginning of October the provision merchants send out their men to purchase pigs at the different markets, and they get notes from the bank. The cattle trade is conducted in the same way; men go to the market to buy pigs and cattle, and take them over to Bristol and Liverpool, but chiefly to Bristol from the part where I was. Those notes are chiefly issued in three ways. During the summer, the merchants, having their capital unemployed, lodged it as deposits in the bank; then, when the season for trade commenced, they drew out their deposits, in the form of notes. Afterwards, they brought us bills upon their factors in London, and our notes were issued in discounting those bills which they had drawn against the exportations of bacon and cattle. The dealers took their pigs and cattle over to Bristol, and sold them in the various markets and fairs in the west of England, and received the notes which were circulating in that district, and took them to Mr. Stuckey, and got a letter of credit upon me, payable on demand, for the amount. So that our notes were issued, in the first place, by the withdrawal of deposits; secondly, for the discounting of bills on London, drawn against the exports which were made; and thirdly, for the payment of letters of credit which had been obtained by the parties who had sold Irish cattle in the English markets. The notes were, therefore, drawn out by the trade of the country, and of course it was not in our power to withhold issuing those notes, unless we wished to cramp the trade of the country."

Laws of the Currency in Ireland, since 1845.[1]—In the year 1845 an Act was passed for the regulation of bank notes in Ireland. The average amount of notes that had been in circulation during the year ending May 1, 1845 (£6,354,494), was made the fixed or authorized issue. For any amount beyond its authorized issue, each bank was required to hold an equal sum in gold or silver coin, the silver not to exceed one-fourth of the whole. The Act came into operation on the 6th Dec. 1845, and from that period each bank has made returns to the Government, stating the average amount of notes in circulation during the preceding four weeks, distinguishing the notes under £5 from those of £5 and upwards, and stating the amounts of gold and silver coin it held in its vaults. These returns are made by all the banks of circulation in Ireland. These are—the Bank of Ireland, the Provincial Bank of Ireland, the National Bank, and the three banks in Belfast, viz., the Northern Banking Company, the Belfast Banking Company, and the Ulster Banking Company.

We possess these returns for every four weeks from Jan. 1846 to the present time. By adding together all the returns made during each year, and then dividing by thirteen, we obtain of course the average amounts in circulation from 1846 to the year 1851, inclusive. I have also added the proportion per cent. these averages bear to the certified circulation of £6,354,494. The following are the average amounts of circulation :—

	Average Circulation.	Proportion to Certified Circulation.
1846	£7,259,948	114·25
1847	6,008,833	94·55

[1] This article is an abstract of a paper read before the Statistical Section of the British Association, at their meeting held at Belfast in the year 1852.

	Average Circulation.	Proportion to Certified Circulation.
1848	£4,828,992	76
1849	4,310,283	67·83
1850	4,512,444	71
1851	4,462,909	70·25

It appears that, if the authorized issue be represented by the number 100, the actual circulation for the six years, 1846 to 1851, inclusive, will be represented by the numbers 114, 94, 76, 67, 71, 70. The question naturally occurs to us—What is the cause of this great falling off in the annual circulation since the passing of the Act of 1845? In reply, we may observe that the annual productiveness of the harvest would affect the amount of notes in circulation. From the description of the harvests given in the annual reports of the Provincial Bank of Ireland, we learn that the years 1846 and 1848 were disastrous in regard to the produce of the harvest; and we consequently find, as we should naturally expect, a falling off in the following years in the circulation of bank notes. We may also observe, that a bad harvest in one year may, by the distress it produces, cause a less production of commodities in several following years, and hence there may be a less demand for bank notes. In a bad harvest the farmer consumes his own produce instead of selling it, and thus requires not the use of notes. If his potatoes are destroyed he will consume his grain. The distress of the farmer also diminishes the instruments of reproduction. If he has no potatoes he can rear no pigs. An abundant crop of potatoes produces in the following year an abundant crop of pigs, but a famine of potatoes will be followed by a famine of pigs; and hence the distress of one year may have an effect upon the circulation of notes in several succeeding years. After the failure of the potato

crop in 1846, the exportation of swine was reduced from 480,827 in 1846, to 106,407 in 1847. The potato crop again failed in 1848. The number of swine exported in 1848 was 110,787; in 1849 it was only 68,053.

We may also observe, that a reduction in the quantity of commodities produced may be caused by a reduction in the number of producers, and this would occasion a less demand for bank notes. It appears, from the Census of 1841 and 1851, that, between these two periods, the population declined 1,659,330, or at the rate of 20 per cent.; and calculations have been made to show that the whole of this decrease had taken place since the year of the famine, 1846. Such a decrease, from whatever cause, must be attended with a decrease in the commodities produced and consumed by those individuals, and will consequently have occasioned a less demand for bank notes to pay for those commodities. If the lands previously occupied by this departed population remain uncultivated, there is a direct decrease in the agricultural produce. Such might be the effect where the occupants died. Emigration might produce an additional effect. The emigrants, before their departure, would change all their bank notes into gold to take with them, and thus would occasion a further reduction of the circulation. This decrease of the population occurred chiefly among those who had but small holdings in land. Those small cultivators are compelled to bring their produce to market immediately after the harvest, and hence the circulation rises in September and October. From these small holdings, too, the produce is brought to market in small quantities—"each man brings his sack of oats, or two or three pigs, to market"—and hence the circulation, thus occasioned, must consist chiefly of small notes. We may further observe, that the amount of notes which circulate in a country will also be

affected by the quantity of commodities exported, and the quantity imported. The season in which there is the greatest export of commodities is the season of the highest circulation. But importation withdraws the notes previously in circulation. The effect of diminished exports and increased imports is referred to in the Reports of the Provincial Bank of Ireland, every year from 1847 to 1851; and Mr. Murray states, in his evidence before the Committee on Commercial Distress, that not only was the amount of notes reduced, but also that of silver.

Thus we find that the reduction in the amount of notes in circulation in Ireland has been preceded or accompanied by a reduction in the amount of commodities produced, occasioned by a reduced productiveness in the land actually cultivated, a destruction of the instruments of reproduction by the distress thus occasioned, a reduction in the number of producers by deaths and emigration, and the exportation of an increased portion of its capital in exchange for food. But there is another circumstance that concurs in powerfully producing the same effect—that is, the prices at which the commodities brought to market are sold.

The failure of the crops in Ireland led the late Sir Robert Peel to introduce "An Act to amend the Laws relating to the Importation of Corn." It is 9 & 10 Vict. cap. 22, and was passed June 26, 1846. A large reduction was made in the duty immediately; and it was enacted that, after the 1st day of February, 1849, the duty on wheat, barley, oats, &c., should be only 1*s.* per quarter. And in consequence of the increased distress in Ireland, another Act was passed, in January, 1847 (9 Vict. cap. 1), to suspend, until the first day of the following September, all duties on the importation of corn. In consequence of these Acts, large importations took place, and the prices

gradually declined. I have no means of ascertaining the average prices of grain throughout Ireland, but I have obtained from a London corn-merchant the average prices of wheat, barley, and oats, for each year from 1841 to 1851, and taking in each case the prices of the year 1845 as represented by 100, I have calculated the variations per cent. in the subsequent years. On comparing the years 1845 and 1851, we find that the circulation has declined 35·78 per cent., the price of wheat has declined 24 per cent., of barley 21·85 per cent., and of oats 17·40 per cent. If we compare the year 1841 with 1851, the decline of the circulation will only be at the rate of 16·7 per cent., while the price of wheat shows a decline of 40 per cent., of barley 25 per cent., and of oats 17 per cent.

From the whole, we infer that the difference between the amount of bank notes circulating in a country at two distant periods cannot be regarded as any correct test of the condition of its inhabitants at those periods, unless we take into account all the circumstances by which that difference is attended—that the decline of the circulation of bank notes in Ireland, from the year 1845 to 1851, is no accurate measure of the distress that has existed in the country, as other causes besides distress have concurred in producing that effect—that in comparing the circulation of 1845 and 1851, we are making a comparison unfavourable to the country, as the year 1845 was a year remarkable for the high amount of its circulation—and that we should indulge in no gloomy inferences as to the condition of the country even if the circulation should never recover its former amount.

Having considered the changes that have taken place in the annual amount of notes that have circulated in Ireland since the passing of the Act of 1845, I shall consider the monthly changes in the amount of the circulation.

Let us take up the returns, and look at any year we please, and we shall find that all the months vary from each other. Beginning at January, the amount of the circulation usually declines—slowly at first, but more rapidly in May, June, and July, until, by the end of August, we arrive at the lowest point. Then, in September, it begins to ascend, and goes on increasing till January, and then again declines till August. Now, let us inquire what are the laws which regulate these monthly variations. I stated that the annual variations were caused by variations in the quantity and price of agricultural produce. But, as no notes could be put into circulation until this produce is brought to market, the monthly circulation must depend upon the quantity of produce brought to market within the month. Now, it has been the custom in Ireland to commence bringing the produce to market immediately after the harvest. Hence arises the increase of the notes in September, and their further increase in the following months. But in the beginning of the year the landlords collect their rents, and receive from their tenants the notes for which this produce has been sold; this brings the notes back to the bank, either to be placed to his credit (if he have an account there), or, otherwise, in exchange for a letter of credit on Dublin, or a bill on London. The circuit of a note, then, is this:—It is obtained from the bank by a corn-merchant, who pays it to a farmer for his corn, which he ships to England. The farmer afterwards pays the note for rent to his landlord, who brings it back to the bank. Every month the bank is issuing and retiring notes; but, from August to January, it issues more than it retires, and hence the amount of notes in circulation increases; and from January to August it retires more notes than it issues, and hence the circulation falls.

We may notice another feature suggested to us by these Public Returns. We observe that a portion of the circulation consists of notes of £5 and upwards, and another portion of notes under £5; and it may be useful to inquire if these two classes of notes are subject to the same laws, and whether they rise and fall at the same time and in exact proportion to each other. Viewing the monthly circulation, we observe that the small notes, like the large notes, are at their lowest amount about the month of August, and at their highest amount about January. But we observe, also, that from August the small notes increase more rapidly than the large ones, and after January they decline more rapidly; so that in every year the proportion of small notes in circulation is greater in January than in August. It may be observed, too, that the circulation of the Belfast banks includes a much larger proportion of small notes than is contained in the circulation of the other banks. To show this, it will be sufficient to analyze one of these returns. Upon the total circulation of all the banks, the proportion of small notes on the 7th of August, 1852, is 49·39 per cent.; upon that of the Bank of Ireland, 34·73 per cent.; the Provincial Bank, 58·82 per cent.; the National Bank, 59·93 per cent.; and the Belfast Banks, 86·55 per cent.

I have one feature more to notice in these returns—that is, the amount of gold and silver kept by the banks, in order to meet the payment of their notes. For several years past the Act of 1845 has not required the Irish banks to keep any amount of gold or silver, for they have always been below the authorized circulation; but another Act, passed in the year 1828, through the influence of Mr. Spring Rice—(Lord Monteagle)—requires that all notes should be payable in gold on demand at the place of issue. The gold and silver kept by the banks have only been to

the amount that they deemed necessary or prudent for the purposes of business.

We observe from these returns that the annual average amount of gold and silver kept by all the banks has varied from 29 to 36 per cent. We observe, too, that in the years when the circulation has been low, the amount of gold and silver has been higher in proportion than in those years when the circulation has been high. Taking the average of years from 1847 to 1851, the *lowest* amount of gold, in proportion to its circulation, has been kept by the Bank of Ireland. The proportion varies from 24 per cent. in 1851, to 30 per cent. in 1849. The highest proportion has been kept by the Provincial Bank. It has varied from 38 per cent. in 1851, to 52 per cent. in 1849. We may also state that, in the monthly variations, the lower the circulation the higher the proportionate amount of gold and silver. This arises, it may be presumed, from the circumstance that the banks do not vary the amount of their gold and silver with every variation of the circulation. The proportion of silver to gold kept by all the banks, has varied from 20 to 33 per cent., but the proportion varies very much with different banks.

The amount of gold necessary to be kept against any given amount of notes in circulation is purely a question of management, and depends upon a variety of circumstances. The degree of public confidence the bank may have acquired, the excitable character of the population, the state of commercial credit, the facility of obtaining supplies, and the rapidity of communication with its branches, are all to be taken into calculation by a prudent banker. Gold can now be so readily obtained from England by means of steamboats, and distributed throughout Ireland by means of railways, that so large an amount may not be so necessary as formerly. The railways and

the electric telegraph are useful to bankers, and present a striking instance of the utility of scientific discoveries to men of business.

Abolition of Small Notes.—The following is the report of the Select Committee of the House of Commons, made in 1826, respecting the abolition in Ireland of notes under £5 :—

"With respect to the circulation of Ireland, the inquiries of your Committee have been less extensive than those which they have instituted with respect to Scotland.

"The first law in Ireland which restrained the negotiation of promissory notes, was an Act passed in the Irish Parliament in the year 1799.

"The preamble recites that various notes, bills of exchange, and drafts for money, have been for some time past circulated in lieu of cash, to the great prejudice of trade and public credit; and that many of such notes are made payable under certain terms, with which the poorer classes of manufacturers and others cannot comply, unless by submitting to great extortion and abuse. It adds, that the issue of such notes has very much tended to increase the pernicious crime of forgery; and the Act proceeds to apply to notes between the value of £5 and 20*s.* similar restrictions to those which had been applied to such notes issued in England by the Act which passed in the year 1777. It permits, however, during the suspension of cash payments by the Bank of Ireland, the issue of bank-post bills, bills of exchange, and drafts under certain regulations, for any sums not less than three guineas. This Act did not extend to the Bank of Ireland.

"In 1805, this and some other Acts which had passed in the interim relating to the issue of small notes, were repealed; and notes under 20*s.*, which had been previously

admitted under certain regulations by the Act of 1799, were declared void.

"There is at present no law in force imposing any limitation to the period for which notes for a sum not less than 20*s.* may be issued in Ireland.

"A tolerably correct estimate of the amount of promissory notes, above and below £5, circulating in Ireland, may be formed from the subjoined returns made by the Bank of Ireland, and by other banks at present established in that country.

"Bank of Ireland notes.—An account of the average amount of the Bank of Ireland notes of £5 and upwards (including bank-post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825 :—

	Irish currency. £	*s.*	*d.*
"Notes and post-bills of £5 and upwards	3,646,660	19	6

"An account of the average amount of the Bank of Ireland notes under the value of £5 (including bank-post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825 :—

	Irish currency. £	*s.*	*d.*
"Notes and post-bills under the value of £5	1,643,828	0	5

"It appears from the evidence that a practice prevails in Ireland of issuing notes for the payment of sums between one and two pounds, for three guineas, and other fractional sums.

"Your Committee see no public advantage arising out of this practice, and they are of opinion that it ought to

be discontinued, as it tends to dispense with the silver coin, and practically to exclude it from circulation.[1]

"Your Committee hesitate, in the present imperfect state of their information, to pronounce a decisive opinion upon the general measures which it may be fitting to adopt with respect to the paper currency of Ireland.

"Although they are inclined to think that it would not be advisable to take any immediate step for the purpose of preventing the issue of small notes in Ireland, their impression undoubtedly is, that a metallic currency ought ultimately to be the basis of the circulation in that country.

"It will probably be deemed advisable to fix a definite, though not an early period, at which the circulation in Ireland of all notes below £5 shall cease; and it is deserving of consideration, whether measures might not be adopted in the interim for the purpose of insuring such a final result by gradual, though cautious, advances towards it."

The following is a summary of the evidence given before the Committees of the two Houses of Parliament, as to the effect of abolishing the small note circulation in Ireland:—

1. Small currency is necessary to carry on the commercial transactions of the country.

JOHN ACHESON SMYTH, Esq., *Agent for the Belfast Bank at Londonderry.*

"In Lancashire, I believe all the raw materials are bought in large parcels, and by bills. In Ireland, the raw material is all bought in small parcels, and all in small notes. In Lancashire, there is only cash wanted to pay

[1] The Act 8 & 9 Vict. c. 37 (1845) prohibits under penalties the issue of notes for fractional parts of a pound.

the workmen, but we want it both to pay the workmen and to buy the raw material. The provision and grain that we send to England are also bought in small notes, and we are reimbursed by drawing bills for our shipments." [1]

PIERCE MAHONY, Esq., *Solicitor to the Provincial Bank of Ireland.*

"If the banks were prevented issuing notes under the amount of £5, would any inconveniences arise in conducting the trade of the south of Ireland?—The trade of Ireland generally, and especially in the south of Ireland, would be greatly inconvenienced, and the growth of manufactures would be decidedly checked, if not destroyed, by such a measure. From the great subdivision of land in Ireland, and particularly in the south and west (where the population is almost exclusively agricultural), the produce is disposed of in small portions, scarcely ever representing £5, and almost universally under that amount. I am of opinion that the withdrawal of all notes under that amount would have the effect of curtailing the accommodation the banks now afford to the public to a ruinous extent, and that the trade of the country under such circumstances would not afford profitable employment for banking capital to any extent; and, therefore, I should anticipate the withdrawal of such establishments, except, perhaps, at Cork and Belfast. In the south and west of Ireland, from the nature of the provision and corn trade, the chief demand for notes or for gold commences in October, and continues until March, when that trade is nearly over for the season. From March until October the butter trade is almost the only one in the south and west of Ireland; and as that trade would not employ all the capital that is required in the winter sea-

[1] Commons' Report, p. 77.

son, the effect would be, if sovereigns were substituted for small notes, that the extra supply required for the corn, beef, and pork trade, must remain idle in the banker's chest, or be remitted at great risk and expense for employment elsewhere during the summer and autumn.

Do you think, if a metallic circulation were adopted, that there would be a difficulty in maintaining that metallic circulation?—I do; because the trade in the south and west of Ireland is periodical; the remittances from those districts of Ireland would force the gold away at certain periods, and it must be returned at others, with considerable expense, to meet the trade of the country." [1]

2. A gold currency would be more inconvenient than notes, and would not be so well liked by the people.

LEONARD DOBBIN, Esq.,[2] *Agent for the Northern Banking Company of Belfast, at Armagh.*

"Do the people of the north of Ireland manifest any wish for gold in preference to notes, or for notes in preference to gold?—They decidedly prefer notes, and the weavers have refused to carry gold out of the market lately.

"Can you assign any reason for this preference?—There are many reasons that I could assign. The bank notes are now the established currency; the people are perfectly acquainted with them. If a man should lose notes, or a house be robbed, or if there is a forgery, it would be much better for them to trace notes than it would gold. I have often assisted poor people in tracing notes that were robbed, and forged notes, whereas the gold could not be traced so readily. Another reason I would

[1] Commons' Report, pp. 250, 251.

[2] This gentleman was afterwards agent for the Bank of Ireland at Armagh, and M.P. for that place.

give is this, guineas became light, and were troublesome to the people. When standing beam there was 1*s.* charged, and when lighter than standing beam 2*s.* 6*d.*; and when gold was scarce, and bank notes not a legal tender, the land agents refusing to take anything but gold, the tenants were obliged to pay from 1*s.* to 4*s.* on a guinea, discount. Some agents would only take gold." [1]

J. A. Smyth, Esq., *Linen Merchant, and Agent for the Belfast Bank at Londonderry.*

"I am in the habit of employing my linen buyers to go to the country markets, and I must supply them with the week's money before they start, perhaps five hundred or a thousand pounds. They have to go through the interior of the country, and do not return for a week. They make their purchases all in small quantities, and it is more convenient for them to carry notes than gold." [2]

Arthur Guinness, Esq., *Director of the Bank of Ireland.*

"I conceive, that with the persons who handle the circulation of the country, there is a decided preference in favour of small notes over cash in every respect. I speak from mine own experience; for I remember perfectly well, before the restrictions upon cash payments, when gold was a great inconvenience in trade. I speak of those who handle the currency of the country, among whom I think the preference is in favour of the small notes, as more convenient, more portable, and less liable to counterfeit. I conceive these to form the general grounds of preference." [3]

[1] Commons' Report, p. 243. [2] Lords' Report, p. 7.
[3] Commons' Report, p. 237.

3. The profits of the banking establishments would be so much diminished, that they could not extend the same accommodation to the agricultural and commercial classes.

W. P. Lunnel, Esq., *Director of the Bank of Ireland.*

"If the notes under £5 were prohibited, would the profits of the Bank of Ireland be materially affected by such prohibition?—I should expect that they would suffer: they must sacrifice a certain profit.

"Have you considered to what extent the profits of other bankers would be affected?—I should expect that the principal circulation of the country bankers is in small notes, and therefore in that proportion they would suffer." [1]

John Holmes Houston, Esq., *Banker at Belfast.*

"If all the notes under £5 were prohibited to be issued, would it be worth while, in your opinion, to keep the establishment of a bank at Belfast?—I do not think it would, except by carrying it on in the same manner as it formerly was—to keep a discount office, charging a commission on discounting bills, because £5 notes would not circulate. Then our circulation would be so trifling it would not answer." [2]

H. A. Douglas, Esq., *Director of the Provincial Bank of Ireland.*

"I consider the cash account system and the one-pound circulation so connected, that if the notes are withdrawn, it is understood that our establishment will not grant any

[1] Lords' Report, p. 108. [2] Ibid. p. 35.

further cash-credits. The business which we carry on, even if we charged a higher rate of interest, or a commission, would not be of sufficient magnitude to repay us for the expense of our establishment, independent of our notes. If the issue of small notes be withdrawn, then we cannot afford to allow interest on deposits." [1]

4. The abolition of small notes would prevent the investment of British capital in the present banking establishments.

T. S. Rice, Esq., M.P. (Lord Monteagle), *Director of the Provincial Bank of Ireland.*

"Is it your opinion, that if all notes under £5 were abolished, a considerable inconvenience would arise in the ordinary traffic in Ireland?—I conceive that it would. I conceive that the first effect of the extinction of all notes below £5 would be a much more considerable diminution of the general mass of the circulating medium in Ireland than in England.

"I fear extremely that if anything were to occur which materially diminished the profits of our establishment, it would have the effect of depriving us of one of the chief benefits of the establishment, namely, the support and control of British capitalists, and conducting the bank by British merchants, and upon British commercial principles. I conceive a rate of profit, rather higher than the average rate of profits, is essential to induce persons so circumstanced to engage in such a business, more particularly when it is considered that there is no limitation of responsibility by the grant of charters." [2]

5. The gold currency would be sent out of the country, whenever it bore a premium in England.

[1] Lords' Report, pp. 24, 26, 27. [2] Ibid. pp. 47, 51.

HENRY H. HUNT, Esq., *Local Director of the Provincial Bank of Ireland at Waterford.*

"What do you think would be the consequence of a law which prohibited the issue of notes below £5, both by the Bank of Ireland and by any other banking establishment in Ireland?—I should think it would be very hazardous indeed: I should very much apprehend that the gold circulation would at times be *withdrawn* in a very great degree *from the country*, whenever gold was wanted in London; for instance, A SMALL PREMIUM UPON A SOVEREIGN WOULD INDUCE A VAST QUANTITY OF THEM TO BE BROUGHT OUT OF IRELAND.

"Have you ever known instances of quantities of gold being brought over from Ireland to this country, and persons making a regular traffic of it?—I have." [1]

6. The proposed measure would cause general distress, and prevent the progress of enterprise.

JOHN ROBINSON PIM, Esq., *General Merchant in Dublin.*

"The very idea of curtailing the currency under £5 would have a tendency to discourage all adventure in Ireland at present. I should not, for one, be careful of placing money in any kind of machinery till the effect was tried. I fancy it would reduce property very much in that country,—and sometimes fancies are almost as bad as reality." [2]

Robert Murray, Esq., the chief officer of the Provincial Bank of Ireland, was examined as to the establishment of one Bank of Issue throughout Ireland. The following is his reply:—

"It would produce an entire revolution in the monetary

[1] Commons' Report, pp. 73, 74. [2] Lords' Report, p. 19.

affairs of Ireland. The committee will already have gathered, from the questions I have previously answered, that the produce is brought to market in very small quantities, and by a very large number, I had almost said an innumerable class, of farmers; each man brings his sack of oats, and two or three pigs to market. It would be almost impossible, in such a state of things, to regulate by one bank of issue the monetary affairs of Ireland, or to adapt it to its purposes as it is now situated."

It may be useful to trace the effects of the Act of 1845 (8 & 9 Vict. c. 37) upon the state of banking in Ireland, as compared with the effects of similar enactments in Scotland and England.

1. The limitation of issue in Ireland, as in Scotland, is not absolute. The banks may issue beyond this limit, if they retain an amount of gold and silver equal to this excess. In England the prohibition is absolute. The probable effect will be that these enactments will not lead to any permanent decrease of the circulation in Ireland or Scotland. The banks will merely import more gold when the circulation increases. In England it seems probable that the circulation will permanently decrease. Means will be employed to conduct banking operations with fewer notes, and these means will operate at all times—when the circulation is low, as well as when it is high.

The provision of the Act of 1845, which requires the banks of Scotland and of Ireland to keep an amount of gold equal to the notes in circulation beyond the fixed limits, tends, as we have observed, to restrict the granting of cash-credits in Scotland. We doubt if it will have an equal effect in Ireland, simply because the cash-credits exist to only a limited extent. The Provincial Bank introduced the system in 1825, and no system could be

better adapted to the state of the country. It would doubtless have greatly improved the condition and the habits of the people; but the iniquitous runs for gold which, at the suggestion of reckless politicians, took place in 1828, 1830, 1831, and 1833, compelled the banks to restrict their operations. Had the banks remained without molestation, the whole of the agricultural districts of Ireland would probably by this time have had the benefits of this system, with the same beneficial results which have been realized in Scotland.

2. In Ireland these measures will not tend to produce so great an increase of gold as in Scotland. In Scotland the banks, previous to the passing of the Act, kept but a small amount of gold. But in Ireland the banks, from their liabilities to runs, have always kept large deposits of gold. The amounts required by the Act are not larger than those formerly kept in their vaults. It appears from the returns, that the Bank of Ireland has recently kept a smaller amount than before the passing of the Act. Hence their means of affording accommodation are not diminished; and as they sustain no loss, they have no reason for increasing their charges. The Bank of Ireland and joint-stock banks, as a rule, allow interest only on deposit receipts. The reason assigned by the Scotch banks for allowing interest on current accounts was, that the operations on these accounts maintained in circulation a large amount of their notes. This will be no advantage if the bank must retain an amount of gold equal to this increase of notes in circulation.

3. The prohibition of new banks of issue has operated variously in the three countries. In Ireland it was beneficial; in Scotland it has been harmless; and in England it is injurious. The Agricultural Bank of Ireland caused considerable mischief. To prevent the recurrence of such

evils, the most effectual way was to prohibit the formation of new banks of issue. Hereafter this restriction may become oppressive. Cork, and Limerick, and Waterford may become sufficiently wealthy to supply a banking capital, and may wish to form local banks. The local banks at Belfast have conferred great benefits on the north of Ireland. In Scotland the banks are sufficiently numerous; and, as they are allowed to unite, the authorized issue of notes is never likely to be less than it is. And although restrictions on banks are unsound in principle, they may not at present do any harm in Scotland. In England the restriction is injurious. Had we an unlimited power of forming new banks, many of those firms that now consist of not more than six partners would be merged in larger establishments. The number of banks would be less—the amount of their issues would probably be less—but they would attract a higher degree of public confidence, and their character and continuance would not be dependent upon the lives of individual partners.

4. Unions of banks in either Ireland or Scotland are not very likely, nor perhaps desirable. The banks are large, have a respectable capital, and enjoy the public confidence. In England, many banks are small, and have small capitals. Union among them would be highly beneficial. Yet such is the waywardness of legislation, that the Acts of 1844 and 1845 give facilities to unions in Ireland and Scotland, and restrict them in England. In Ireland and Scotland two banks of issue may unite, and the united bank have the united circulation. In England, if two banks of issue, either of which has more than six partners, should unite, the circulation of one or both of these banks would be lost.

5. The Act passed in 1844, for the regulation of joint-

stock banks in England,[1] was extended in 1846 to Scotland and Ireland, with the omission of the clause that rendered the banks subject to the laws of bankruptcy. By a clause in these Acts, any bank for the formation of which proceedings had been taken before the 6th May, and which was actually in business on the 4th of July, must at the end of a year after the passing of the Act either retire from business or take a charter. The Preston Banking Company was in this case, and accordingly became a chartered bank. Out of London this is the only bank that has a charter under the Act in England.

It was a special provision of this Act (Joint-Stock Banks Regulation Act) that no new joint-stock bank can be formed of a less nominal capital than £100,000, and half the capital must be paid up before the commencement of business; that the assets and liabilities of the company must be published once at least in every month; and that at least one-fourth of the directors shall retire yearly, and shall not be eligible for re-election for at least twelve calendar months.

That provision of the Act which requires one-fourth of the directors to retire annually, and which declares them ineligible for election for one year, has been the subject of much discussion. The object of the Legislature appears to have been to prevent those evils which, in public companies of every kind, occasionally arise from the undue ascendency of individual directors. Practically, it may be injurious or advantageous to a bank, according to circumstances. On the one hand, it may deprive a bank of the services of its most useful directors for one year.

[1] This Act, as regards the three kingdoms, was repealed by Act 25 & 26 Vict. c. 89, § 205. The Act alluded to in the text was 7 & 8 Vict. c. 113, while what is usually called "The Bank Act of 1844" (the object of which was simply to regulate the issues) was cap. 32.

And on their return, they may be less useful than heretofore, from being less acquainted with the transactions that have taken place during their absence. In small country banks it might not be easy to find other parties to take the places of the directors who had thus retired. On the other hand, it has been contended that the number of the directors, and consequently their influence, would thus be virtually increased—that, while on some occasions the most clever directors would be compelled to retire, at other times the least clever would retire, and their places might be better supplied—that the retirement of even the most clever might call forth the energies of the others, and thus the talents of the whole might be improved—that the plan tends to prevent the undue ascendency of any individual director, or of any knots or parties of directors, for any length of time—and that it is a convenient means of getting rid of an inefficient, injurious, or disagreeable director: for, when he is once out, it would be easy for the board, if so disposed, to prevent his re-election. By the charter of the Bank of Ireland, fifteen directors are chosen annually, and not above two-thirds of the directors of the preceding year can be re-elected.

6. There is another difference between Scotland and Ireland with reference to banking operations, though it does not arise from the above-mentioned Act. At the time of the union between England and Ireland, Ireland had her debts as well as England. And although England became liable for these debts, the dividends continued to be paid, and the transfers made in Dublin. Hence Government stock is bought and sold there in the same way as in London. Besides this, any party may purchase stock in Ireland, and have it transferred to England, or the reverse. The plan is this:—Any person holding stock may go to the Bank of England, either personally or by

power of attorney, and get a ticket that will authorize him to have the same amount of stock put in to his name in Ireland. The stock in England is then transferred to the Commissioners for the Reduction of the National Debt. He may go to the Bank of Ireland in Dublin and reverse the operation. Several Acts of Parliament have been passed with reference to this subject. The last is the 25th Vict. c. 7, passed in the year 1862. When there is a great difference in the price of stocks in the two countries, operations of this kind may be very profitable.

This power of transferring Government stock from one country to the other has a tendency to equalize the price in both countries. It also serves the purpose of a medium of exchange. A transmission of stock has the same effect in rectifying the exchanges as a transmission of gold. And doubtless the exchanges between England and foreign countries might, to a great degree, be adjusted in the same manner.

There is a Stock Exchange in Dublin similar to that of London, established for the purchase and sale of Government stock, bank stock, railway shares, &c. No person can transact business there unless he has obtained a licence from the Lord Lieutenant. The number of these persons is at present about fifty-six. The borrowing and lending of money on stock are matters of daily occurrence. This is not always done through brokers. Individuals often effect these transactions directly with the banks. The general rule is that the lender shall have a margin of 5 per cent. on the value of the stock, and shall be entitled to call for additional security whenever the market price falls below that difference.

We have noticed the different meanings given to the word "circulation" in England, since the passing of the Act of 1844. By the Act of 1845, it is enacted that this

word shall have the following meaning in Scotland and Ireland:—

"Section 17.—And be it enacted, That all bank notes shall be deemed to be in circulation from the time the same shall have been issued from any banker, or any servant or agent of such banker, until the same shall have been actually returned to such banker, or some servant or agent of such banker."[1]

The Exchanges between the Banks.

Since the Act of 1845—when other banks besides the Bank of Ireland acquired the power of issuing notes in Dublin—a system of clearing, or, as it is called, of exchanges, has been established, similar to that established in Edinburgh. The following is a copy of a clearing balance-sheet:—

BALANCES OF EXCHANGES WITH OTHER BANKS,

ON _____, 18 .

Due to it.			With	Due by it.		
			Bank of Ireland.			
			Provincial Bank.			
			National Bank.			
			Ulster Bank.			

[1] It may be stated here that the circulation of the Issue Department of the Bank of England is at present £15,750,000 more than the amounts of gold and silver held in that department. The amount of the circulation in the hands of the public is found by deducting the amount of bank notes in the Banking Department from the amount of circulation of the Issue Department.

Here we may observe that all the banks that clear are banks of issue; and the clearing in Dublin includes all the banks of issue in Ireland, although three of these banks have their head-quarters in Belfast. Two of the Belfast banks clear by their agents. The Bank of Ireland is the agent for the Northern Banking Company, and the Ulster Bank has a branch in Dublin. It will be observed that the Bank of Ireland—the chartered bank—is a member of the clearing; and, in fact, the clearing is held daily, in one of the rooms of that establishment. The differences are paid daily, in exchequer bonds. The following are the amounts required to be held by each bank:—

The Bank of Ireland . . .	£192,000
The Provincial Bank . . .	100,000
The National Bank	78,000
The Ulster Bank	30,000
	£400,000

Those banks in Dublin that are not banks of issue are not members of the clearing. All the non-issuing banks, however, have accounts with the Bank of Ireland, and pay into that establishment the cheques they may have on the other banks. The issuing banks which attend the clearing have no account with the Bank of Ireland.

This system of clearing appears to work very satisfactorily. The following is an extract from a letter I received from an Irish banker on the subject:—

"The settlement of our 'exchange balances' in Dublin, through the use of exchequer bills, works very well. The great evil, *previously*, was, that when these balances were of magnitude, Dublin was such a limited money market, there was difficulty and expense in raising the needful quantity of Irish money for the purpose. If you antici-

pated the balance to be heavy against you, it was requisite to prepare some time *before*, and to have your funds lying idle and unproductive until the crisis arose. *Now*, we have exchequer bill interest for our surplus, and the power of replenishing our stock account whenever required by drawing on *London*, thus possessing the unbounded advantages of the greatest money market in the world. In point of fact, the arrangement has virtually changed the venue, and made *London* the actual and final place of settlement, through machinery worked in Dublin."

RULES,

Amended and Revised March, 1873, *governing the Exchanges at Dublin. Established December* 8, 1845.

1. The hours for making the exchanges to be—

Forenoon—For notes and cheques, 10 o'clock.

Afternoon—Final clearing for cheques, 2 o'clock. Except on

Saturday, when the hours to be 9.30 a.m., and 12 o'clock noon.

In order to establish punctuality, any bank not represented in the Clearing Room fifteen minutes after the hours specified, to be excluded from that exchange.

2. The payments of the balances shall be made in exchequer bonds, except for the fractional parts of £500, which may be paid in notes of the particular bank debtor.

3. The exchequer bonds, which are not to be used for any other purpose, shall bear the distinguishing mark "Dublin Exchanges," and the stamp of the original holders, and shall be received at par, with the interest that may be due, when a transfer takes place.

4. The amount of exchequer bonds to be kept in the circle is fixed at £400,000, and is apportioned as follows:—

Bank of Ireland	£192,000
Provincial Bank	100,000
National Bank	78,000
Ulster Bank	30,000
	£400,000

And each bank shall maintain its quota at all times, as hereafter provided.

5. The exchequer bonds to be as nearly as practicable nine-tenths of £1,000, and one-tenth of £500.

6. The amount of exchequer bonds held by each bank shall be stated every day in the Clearing Room.

7. No bank shall be obliged permanently to hold more than one-third above, or be allowed to reduce more than one-third below its fixed quota of exchequer bonds; when, however, exchequer bonds have accumulated with some banks and are required by others, it shall be imperative on the banks so situated to buy or sell; the bank holding the greatest amount in excess of its quota, being bound to sell to the bank deficient the amount required for the legitimate purposes of the exchanges; no bank, however, in such case being bound to reduce its stock below its original quota, and the bank seeking to purchase shall buy from the bank holding the greatest proportionate amount above its quota.

8. When exchequer bonds have accumulated with any bank to more than one-third above its quota, it shall have the power to call upon the bank or banks holding the smallest amount in proportion to their quota, to purchase; but it shall not be imperative upon any bank to purchase

more than will bring up its stock to two-thirds of its original quota.

9. The bank seeking or being called upon to buy exchequer bonds from banks in excess of their quota, shall pay for such bonds by a credit on London, at not less than two or more than five days' date, at option of purchaser, and interest for the number of days the drafts may have to run, at rate of exchequer bonds, or pay the amount in gold at the option of the seller of the bonds.

10. Each bank is to be always liable for the income-tax on the interest of its original quota of exchequer bonds and no more.

11. The exchanges are to be made at the Bank of Ireland, who undertake to pay to those banks who are creditors in the exchanges, the exchequer bonds received from banks who are debtors in the exchange, but the Bank of Ireland shall not be in any way held responsible for the exchange transactions, or otherwise, soever.

12. The statement of the balances, after they are struck, to be sent to the respective banks from the Clearing Room by their clerks, and the clerks of the banks' creditors to be in waiting to receive the amounts due to them at 2.30 o'clock.

13. Any bank, a party to this agreement, to have the power of withdrawing from it and receiving back its exchequer bonds at par, upon payment of them, if needful, upon giving three months' notice.

14. No bank, a party to this agreement, shall directly, or through any agent, demand gold from, or pay gold to, any other bank, a party to this agreement, except as hereinbefore provided, unless under special agreement between any two of them, mutually agreeing to pay and receive a sum of gold.

15. All orders payable on demand, whether in Dublin

or in country towns, to be passed through the Clearing Room; the orders on provincial towns at the morning clearing only, up to, but not later than 12 o'clock.

Deductions for commissions to be distinctly specified in a note attached to the documents previously to their being brought to the Clearing Room.

Documents returned dishonoured shall not pass through the Clearing Room.

The violation of these regulations by any bank to be considered a virtual withdrawal of that bank from this agreement.

SECTION XXXV.

BANKERS' CLEARING-HOUSE.

THE Clearing-House was established in 1775, by several of the London private bankers, for the purpose of facilitating their exchanges with one another. Every London banker having claims against others, and they against him, used to send out clerks daily to collect the debts due to them, which were settled in cash or notes. The inconvenience of this clumsy method of transacting business, and the necessity it involved of keeping cash in their tills to meet demands made upon them for settlement of these exchanges, led to the formation of this establishment, the example of which had been previously set by the Edinburgh banks; indeed, a similar plan seems to have been adopted, as early as the sixteenth century, by the merchants who met at the great annual fair held in the city of Lyons. They made their bills payable at this fair only. By this means they were relieved from the necessity of keeping coin or bullion to discharge their bills had they been drawn at the usual dates; meanwhile the bills went into circulation, got covered with endorsements, and were yearly set off against each other when adjusting their mutual accounts, so that, as we learn from Boisguillebert, by this means transactions to the amount of £80,000,000 were settled without the need of a single sou in coin.

The Clearing-House was at first by no means generally

approved, and some of the principal bankers refused to have recourse to it. After the number of clearing bankers had increased, a committee was formed for its government. This committee is composed of a representative of each of the leading bankers, and any new bank that desires to have the privilege of clearing must now apply for permission to the committee.

The object the clearing bankers had in view was to exchange bills and cheques against bills and cheques, and thus be enabled to carry on their business with a less amount of capital. But while the bankers endeavoured to promote their own interest, they promoted at the same time the interest of the public. The sums liberated from employment in this way became available for employment in agriculture, manufactures, and commerce. Whenever any banker, therefore, is excluded from the Clearing-House, and is, consequently, obliged to keep a larger amount of cash in his coffers, his available capital is so far reduced, and thus the agriculture, manufactures, and commerce of the country receive less encouragement.

The establishment of the Clearing-House has led to new arrangements in several branches of business. The stock-brokers, for instance, now settle all their receipts and payments by cheques to be paid through the Clearing-House. The cheques a broker draws on his banker are paid at the Clearing-House by cheques of other brokers, which he lodges to his credit. The Colonial brokers also, and other classes of commercial men, have fixed days for settling their accounts, and on these days draw cheques on their bankers in the morning, and pay in cheques to meet them at a subsequent part of the day. Thus the institution of the Clearing-House has become entwined with the commerce of the country, and could not be discontinued without deranging every branch of business. It has also received the

sanction of the law of the land, the courts of law having decided that the presentment of a bill of exchange at the Clearing-House is a legal presentment. In this case, as in many others, the custom of bankers and merchants has become law. Many of our commercial laws have had the same origin. They have at first been mere regulations established by merchants for their own convenience; these regulations have been adopted by other classes of the community; they have been followed for a number of years, and then the law has recognized them as a portion of the commercial institutions of the country. Such was the origin of allowing three days' grace upon bills of exchange, and such has been the case with the Clearing-House. The Clearing-House is no longer, therefore, a private subscription room, from which the parties admitted may exclude whomsoever they please at their own caprice. They may exclude improper banking companies, as the Edinburgh banks refuse to exchange with any bank that is not respectable; but they are bound in justice to admit all respectable banks who may apply for admission.

"Another amendment which I would propose as connected with the currency of London, would be a regulation of the Clearing-House by the Legislature. Although the Clearing-House was a voluntary association of bankers at first, yet it has now existed for sixty years, and has become interwoven with several branches of London trade; it is therefore, for all practical purposes, a public institution, and like a market or any other public institution, might become the subject of legislative interference. The exclusion of banks in London from the Clearing-House, whose capital now amounts to about £2,000,000 sterling, and who have about 2,000 partners, is not only a great inconvenience and great loss to those banks, but is a great inconvenience also to the public in general, and such

an interference with the freedom of trade as carried on by individual companies in London, as alone would justify the interference of the Legislature; and besides, it is quite unreasonable that an association of omnibus proprietors should be indicted and tried for a conspiracy because they have tried to run a rival omnibus off the road, and yet that a body of bankers may conspire for a similar object without any interference of the Legislature at all." [1]

[1] The extract here given is taken from Mr. Gilbart's evidence before the Committee on Banks of Issue in March, 1841. Although the immediate cause of these animadversions has long since been removed by the admission of the London and Westminster (of which bank Mr. Gilbart was the manager) and other joint-stock banks to the clearing in 1854, they are applicable even with greater force at the present day. Unfortunately the same exclusive spirit still seems to govern the committee of the Clearing-House. Of late years applications for admission have been made by some seven banks, and of these five have been refused. One of the applications was by a private bank; another by a London joint-stock bank possessing numerous country branches; and the remainder by three of the Scotch banks, having an aggregate capital of four and a quarter millions, with deposits of over thirty millions, and some 320 branches. It was understood that the committee's reason for refusing to admit the private bank alluded to, was that its head office was not in London. Against the Scotch banks it was urged that they were banks of issue, as well as that their head offices were not in London. It is impossible to see the force of these objections. With regard to the first: there is no remedy in law which one clearing banker could have against another whose head office is in London, which he could not have were that other banker's head office in Manchester or in Scotland. And with regard to the question of issue: as Scotch bank notes could not legally circulate in England, and could not therefore find their way into the hands of London bankers for settlement in the clearing, the question of risk in connection with them could never arise. It would perhaps be doing an injustice to the clearing bankers to suppose that the exclusion of the Scotch banks is due to a jealousy of the privilege of issue possessed by the latter. The issue is undoubtedly a privilege to a certain extent, but it is one the advantages of which are usually very much exaggerated, and one which could not for a moment place the pos

Up till 1854 admission to the Clearing-House was jealously restricted by the private bankers, but in that year the joint-stock banks were admitted, and the Bank of

sessors of it in any advantageous position in competition with their very powerful London neighbours. The application of the joint-stock bank with the country branches alluded to, was refused on the ground that its business was at the time too unimportant to justify its admission; but surely this could not have been the only objection, as the bank in question had capital and deposits considerably larger than the joint capital and deposits of two banks admitted at the time of its rejection.

If the exclusiveness shown by the clearing bankers really springs, as seems probable, from a jealousy of any encroachment upon the banking business of London now in their hands, it seems a pity that so powerful a body, who have nothing to fear from any amount of competition, should place themselves in such antagonism to institutions which have come to London in no aggressive spirit, but have had the necessity imposed upon them by the requirements of their customers, very many of whom have London houses.

The chief objects of the Clearing-House are avowedly to facilitate the exchanges between bankers, to economize capital, to minimize risk, and thereby afford greater facilities to the public; but these objects cannot be fully attained if large banking companies are to be arbitrarily excluded, and forced to collect their cheques and bills upon clearing bankers second-hand through the Bank of England; and still less can they be attained so long as the clearing banks persist in collecting the cheques, &c., held by them, in the old cumbrous way.

But apart altogether from these considerations, it might be thought that the committee, in the interest of the body they represent, if not in the public interest, would be glad to admit all respectable banks doing a London business. To persist in excluding them is to force upon them the consideration of the expediency of adopting tactics which have proved effectual in procuring the admission of more than one of the present members of the clearing. Were the non-clearing banks to take up a hostile attitude and present all their "charges" upon the clearing bankers over the counter (instead of as at present through the clearing by the medium of the Bank of England or some other clearing bank), and demand cash in payment, it is not difficult to imagine the inconvenience and loss which all the clearing bankers, especially the smaller private ones, would suffer. The effect, it is plain, would be, that the

England about ten years later. The Bank of England, however, clear only on one side; that is to say, they clear only their charges *against* the other banks, through the

clearing banks would be obliged to keep two or three millions of additional, unemployed, unremunerative money in their tills wherewith to pay these charges. And not only would this be a serious direct loss to the banks, but it would also, *pro tanto*, lessen their power of accommodating their customers, and hence be a direct inconvenience to the public. The direct loss, of course, would not be measured by the amount that the excluded banks might be able to pass through the out-clearing, but by the amount which the customers of the clearing banks might *possibly* draw during the day, and for which provision in cash would require to be made. And the more numerous the customers and the more important the accounts, the more extensive the provision would necessarily require to be. Again, were the non-clearing banks to have recourse to the action referred to, the clearing banks would be daily placed on the horns of a dilemma. If acceptances in the hands of the former, payable at the banks of the latter, instead of being sent through the Clearing-House as at present (thus giving the acceptors the entire day to provide for them) were to be presented over the counter, the clearing bankers would in very numerous cases be obliged to pay them, when there were insufficient funds to meet them, and so run the risk of loss; or be obliged to return them, and so injure the credit of their customers.

It may be said that the clearing banks could act against the non-clearing banks in the same way. As a matter of fact the former do so to the extent of presenting every article over the counters of the latter at the present time; and the only additional inconvenience they could impose would be to demand cash in payment, instead of transfer cheques. But this inconvenience would be almost nominal, from the circumstance that, comparatively, the London accounts of the non-clearing banks are few in number. The great bulk of the "charges" of the clearing banks against the non-clearing banks consists of drafts drawn by the very numerous branches of the latter, and of the acceptances of their country customers. But as these drafts and acceptances are regularly advised by the branches, the non-clearing banks of London need not provide a single penny more than is necessary to meet them.

But, by way of looking at the question from every position, and of showing from how many points the clearing banks are open to attack, let us reverse the argument, and let us suppose that the non-clearing

clearing; the other banks, as members of the clearing being obliged to keep an account with the Bank of England, pay in their charges against the bank direct to the credit of their account.

The admission of these important establishments has enlarged to an immense extent the business of the Clearing-House, which is performed with a simplicity, exactitude, and regularity as astonishing as the great development of its transactions.

The following are:—

banks would insist on paying the clearing banks in *cash* instead of by transfer cheque. This would be a very effective coercive measure in the hands of the former, for it is clear that the risks attendant on the walk-clerks of the latter, while on their rounds, carrying large amounts of cash with them about the streets, would soon press so heavily as to be intolerable. And not only would the *risks* be intolerable, but the *inconvenience* would be equally so by reason of the labour of the necessary clerical and other work in connection with the bank notes so received. And upon the Bank of England the burden would fall with concentrated severity because of the enormous extra volume of notes which, in the first place, they would have to print, and in the second place, to cancel, day by day.

In fine, seeing that the non-clearing banks could, if they thought fit, so harass the clearing banks, and make the present arrangements so burdensome to them as to force them into compliance, either by demanding *cash* in payment of their charges upon the latter, or by *paying in cash* the latter's charges upon them; or, by pre-arranged variations from time to time, of either, or both, of these modes, it certainly seems the height of folly on the part of the latter, simply for the sake of gratifying their jealousy, arbitrarily to continue to exclude from the clearing many high-class institutions, and voluntarily subject themselves to the inconvenience and loss of collecting their charges in the antiquated manner.

The best proof that the clearing bankers feel the justice of Mr. Gilbart's animadversions lies in the fact that, whatever they resolve to do when in conclave, not one of them can be found individually to defend the policy of exclusion.

The Rules and Regulations to be observed at the Clearing-House.

Ordinary days, excepting Saturdays.

Morning Clearing to open at 10.30. Drafts, &c., to be received not later than 11. Morning Clearing must be closed by 12.

Country Clearing to open at 12. Drafts, including Returns, to be received not later than 12.30. Country Clearing must be closed by 2.15.

Afternoon Clearing to open at 2.30. Drafts, &c., to be received not later than 4. Returns to be received not later than 5, excepting on settling days, when the last delivery shall be at 4.15, and Returns at 5.15.

Fourths of the Month.

Morning Clearing to open at 9. Drafts, &c., to be received not later than 10. Morning Clearing must be closed by 12.

Country Clearing to open at 12. Drafts, including Returns, to be received not later than 12.30. Country Clearing must be closed by 2.15.

Afternoon Clearing to open at 2.30. Drafts, &c., to be received not later than 4.15. Returns to be received not later than 5.15, excepting when the 4th of the month shall occur on a Saturday, when the last delivery shall be at 4, and Returns at 5.

Saturdays (not being Fourths).

Morning Clearing to open at 9. Drafts, &c., to be received not later than 10. Morning Clearing must be closed by 11.

Country Clearing to open at 11. Drafts, including

Returns, to be received not later than 11.30. Country Clearing must be closed by 1.15.

Afternoon Clearing to open at 1.30. Drafts, &c., to be received not later than 3. Returns to be received not later than 4.

The total amount of the Morning and Country Delivery shall be agreed by each Clearer before leaving the Clearing-House.

All Clerks that are in the Clearing-House by Four o'clock or the time appointed for final delivery, shall be entitled to deliver their articles, though they may not have been able to pass them to the different desks before the clock strikes.

All Returns in the course of delivery upon the stroke of the clock of the time appointed for final delivery, must be received by the Clearers, and credited the same day.

Any Bank which has accepted and paid an article returned to it in error, may require repayment through the Clearing-House on the following day.

Notice shall be entered upon a Board at the Clearing-House, giving monthly statements of those settling days at the Stock Exchange, upon which the time for receiving Returns is to be 5.15.

With regard to all Drafts not crossed, and all Bills not receipted, sent to the Clearing-House as Returns, the Clearer holding them must fully announce the particulars to the Clearing-House, and if not claimed, the case must be represented to the Inspectors, but on no account can the Clearer be allowed to debit the Clearing-House with the amount until an owner can be found.

No Return can be received without an answer in writing why payment is refused.

It shall be sufficient in order that a Return shall be re-

ceived and credited, that it shall have on it an answer, why returned; and no Clearer shall refuse to pass to credit any Return that shall be so marked.

All Returns charged upon the Balance Sheet must be marked up and agreed by the Clearer charging the same.

All the differences arising from Marked Articles beyond the sum of £50 must be finally ascertained and placed to account, before the Clearer makes up his Balance Sheet.

No Clearer shall be allowed to charge out Drafts in the Clearing-out Book at the Clearing-House.

All differences of more than £1,000 that may have been accidentally passed over at night, shall be settled by a transfer at the Bank of England, the first thing the next morning.

The Inspectors are charged with the preservation of order and decorum in the Clearing-House, and are instructed to report to the Committee of Bankers disorderly conduct on the part of any persons, calculated in their opinion, to obstruct the adjustment of the business of the House.

It may be instructive, especially to our country readers, to have a detailed account of the operations of the Clearing-House, and of all the work to be gone through in every clearing bank in connection therewith. We shall therefore proceed to give such a detailed account; and although there may be many technicalities in our description difficult to follow, particularly by the uninitiated, we shall aim at making it as clear as possible.

It will be convenient at the outset to explain the meaning of certain technical words used constantly in connection with the Clearing-House, which will render the description more easy of comprehension:—

An "Article" is a bill, or cheque, or dividend warrant,

or banker's payment slip, or memorandum for country notes, or indeed any article which is paid into the clearing for settlement there.

A "Charge" is a batch of *articles* (*i.e.* bills, cheques, bankers' payments, &c.) sent into the Clearing-House by one banker to be *charged* by him against another.

"Deliver" and "Delivery" refer to charges *delivered* by the clerk of one banker upon the desk in the Clearing-House of the clerk representing another banker.

"Returns" are any *articles* which may be returned into the clearing unpaid, from want of funds, irregularity of endorsement, no advice, or from any other cause.

It will also be well to give a short account of the various books employed by every banker which bear in any way upon the work of the Clearing-House. But it will of course be understood that although every banker has books which serve the same purpose as those about to be enumerated, it does not follow that the following is an exact description either of the titles of the books or of the system of book-keeping adopted by every banker. Generally speaking, however, the following books, or others somewhat similar, are in common use.

First of all there is the Journal, which contains a list of all the bills due on a particular day, whether domiciled at the home establishment or at the other clearing bankers.

Secondly, there are the Lists, which, among other items, contain clearing cheques and other articles brought in by the walk-clerks from their various rounds.

Then there are the Received-Waste-Books in which are entered the particulars of the credits paid in by customers to the cashiers.

These three books bear indirectly upon the clearing. The bills specified in the first-mentioned book domiciled at clearing banker's are handed over by the bill depart-

ment to the clearing clerks, and are entered by them in what is called the Morning Bill Book. The cheques, &c., mentioned in the Lists and Waste Books are gathered from the walk and cashiers' departments from time to time during the day by the clearing clerks, and are entered by them at once into their Out-Clearing Book.

The other books which bear upon the clearing in addition to the Morning Bill Book, and the Out-Clearing Book, already mentioned, are the—

In-Clearing Book,
The Out Returns,
The In Returns,
The Clearing Balance Book,
The Clearing Difference Book, &c.

As the uses of these books are obvious, we shall not stay to describe them, but shall proceed to give a description of the manner in which the clearing is conducted.

It will be seen from the foregoing Rules that there are three clearings during the day—

1st. The Morning Town Clearing,
2nd. The Noon Country Clearing,
3rd. The Afternoon Town Clearing.

For the sake of clearness we shall deal with the town clearings first, and afterwards with the country clearing. The morning town clearing opens on ordinary days at 10.30 a.m., when the respective banks deliver to each other charges made up only, as a rule, of bills and marked cheques. These bills are bills which have been discounted by the bank, or held for collection on account of customers. During the afternoon of the day before they fall due, they are passed from the bill department into the clearing department, so as to let the clearing clerks get an early start next morning. On the morning of the day on which they mature, the clearing clerks sort them into various

batches, according to where they are domiciled. They sort all those due at the London and Westminster Bank, the National Provincial Bank, Barclay's, Smith Payne's, &c., &c., together, and then proceed to enter the amounts only in the spaces left under the respective headings of the other twenty-six clearing banks in the Morning Bill Book. This book they then sum up, and check the aggregate of the twenty-six totals with the sum supplied to them on a memorandum by the bill department of the bank. If right, their clearing work is checked so far, and they then transfer the various totals into the Out-Clearing Book. Having done this, they then proceed to deal with the "marked cheques." These are cheques which have been paid in by customers on the afternoon of the day before, too late for that day's clearing. Each bank every afternoon sends these cheques out to the other banks upon which they are drawn to get marked for payment. This marking consists of the initials of one of the cashiers being put upon the cheques, which is tantamount to an acknowledgment that they are all right and that they will be duly paid in the clearing next morning. The banks send out these cheques to be marked chiefly for the convenience of their customers, but partly for their own protection in case a cashier might pay against an uncleared cheque which might afterwards prove to be bad. If a banker chose not to send out such cheques for marking, no question could be raised by his customer as to want of due presentation, because it is distinctly stated on the pay-in slips with which each customer is supplied,—or the customer is acquainted in some other form,—that cheques not paid in by half-past three may not be cleared the same day. As has already been said, these marked cheques are sent into the clearing the first thing in the morning along with the bills, and the two together form what is termed the "first charge." Some

banks try, and some manage to get, the remittances received in their morning letters into their first charge; but as the morning clearing closes for delivery at eleven o'clock, it is plain that none but those bankers who begin business very early can put through so large an amount of work with any degree of satisfaction in time for the morning clearing.

The afternoon town clearing begins at half-past two and closes at four. But the Clearing-House clock is always kept five minutes behind Greenwich time, so that the representatives of the various banks have always five minutes' grace allowed them.

To the afternoon clearing the banks, as a rule, send in some six or seven "charges." But, of course, in exceptional times, such as during the progress of the payment of railway dividends, or any other kind of dividends, or from any other circumstance which makes business particularly brisk, many more charges are sent in. But in ordinary times some half-dozen is the usual number. At the opening of the afternoon clearing, at half-past two, the first charge delivered is usually composed of the remittances received in the morning letters. Then about three o'clock the second charge is sent in, and is composed of the cheques, &c., received over the counter during the morning by the cashiers, for the credit of customers. Then about every twenty minutes or so, from three o'clock till four, charges of the same description are sent in. And two or three minutes past four (by the bank clock) a final charge, consisting of a few articles of large amount, or articles which for some reason the banker may be particularly anxious to clear, may be sent in.

It will, of course, be understood that the operations above described of one clearing bank is illustrative of the operations of all the clearing banks, and that while there has been a clerk running between each bank and the

Clearing-House, from time to time, delivering the charges he has upon the other banks, there has also been a clerk representing the same bank all the time in the Clearing-House, receiving and entering up all the charges which all the other banks had against him.

It will also be understood that the Out-Clearing Book (which is written up *inside* the bank and is carried to the Clearing-House at four o'clock for the purpose of checking) of the delivering banker, is a counterpart of the In-Clearing Book of the receiving banker. Thus the two books of the two banks check each other and render the discovery of errors very easy. Here again one case illustrates the whole. What is done between two banks is done with each other between the whole twenty-seven.

The first charge sent into the Clearing-House during the day is marked on the back of the last cheque thereof, with the total amount, so that the receiving clerk when he has entered it in his In-Clearing Book may add it up and agree it with the amount marked, thereby keeping his work well checked up, and so rendering the final adjustment of the balances very simple.

Country notes are not paid at the Clearing-House, but are taken round to the bankers who are agents for the country bankers, and exchanged for tickets which are passed through the afternoon clearing.

The West-end bankers, the Scotch banks, and such others as have not yet been admitted to the Clearing-House, clear through one or other of the London bankers.

We have described the process by which cheques are paid into the clearing, and have already explained that the Out-Clearing Book of one banker is a counterpart of the In-Clearing Book of the other. And in a sentence we may say that as soon as the receiving banker's representative in the Clearing-House enters the cheques upon him

in his In-Clearing Book, he sends them immediately away to his own bank, where they are critically examined, and, if correct, posted in the ledgers. Should there be anything wrong with any of them, should there be insufficient funds, or should the endorsement be irregular, or should they be irregular in any way, they are sent back to the clearing and returned to the delivering banker with a distinct answer marked upon each cheque of the cause of return. These returns must be sent back to the Clearing-House not later than five o'clock, and are debited on the balance sheet in the final balancing for the day.

It will be understood that the clearing clerks do not wait for the returns before they begin the balancing for the day. The moment the Clearing-House clock strikes four (five minutes past by Greenwich time) they begin the process of balancing, leaving the returns, if any, to be debited afterwards.

Notwithstanding the immense amount of work which is put through the Clearing-House daily, the aptitude of the clerks for their particular work renders errors of infrequent occurrence. The system also of marking the amount of the first and largest charge on the back, facilitates the balancing, by the opportunity it gives to each clerk of checking the major part of his work early in the day.

The In-Clearing Book of each clerk ought to agree, of course, with the portions relating to him of the Out-Clearing Books of the other twenty-six clerks. Each clerk agrees his balance one by one with the other twenty-six. If he is right with all, then he balances, and there is no further trouble, but if he is wrong with any, to any large amount, he is bound to discover his error before leaving the house. A difference of £1500 over (the In-Clearing clerk being always supposed to be right), or of less than £1000 short, is allowed to stand over till the following day if it cannot readily be discovered.

The country clearing (which was introduced by Sir John Lubbock in 1858) opens on ordinary days at twelve o'clock and closes for delivery of cheques thereinto, and also for returns, at half-past twelve. The country cheques delivered to and by the respective banks must all be agreed, and the country clearing must close by 2.15 o'clock. The course of the manipulation of the country clearing is obvious. Every bank in London receives during the day a large number of cheques upon country bankers. Upon these cheques the name of the London agent is printed. Every clearing banker in London is the agent for one or more of the country banks. The London and Westminster Bank is the London agent for the North and South Wales Bank, the Nottingham and Notts Bank, and Hall, Lloyd and Co., Brighton, for instance. Barclay, Bevan and Co. are the London agents for the Cumberland Union Bank, Gurney's Birkbeck and Co., and J. Backhouse and Co. On the cheques of the six country banks mentioned, the names of the London and Westminster Bank, or Barclay, Bevan and Co., are printed as their respective agents. So when the clearing clerks of each bank get such cheques from the cashiers, and from the correspondence department, and from all the other sources whence they may come, they proceed to deal with them as they do with the town cheques. That is to say, they sort them out in batches according to the London agents' names, then enter the amounts in their books, and then deliver them in the clearing to the respective London bankers, agents for the country bankers. No credit is given in the clearing for these country cheques on the day on which they are delivered. The amounts are simply agreed by the delivering clerks and the receiving clerks, and then the articles are taken to the respective banks, whence they are sent by post the same evening to the

country bankers upon whom they are drawn. If these cheques, on reaching their destination, are found to be in order, they are credited in account with the London agent and advised; but if any of them are not in order, either through insufficient funds, or irregular indorsement, or any other cause, such irregular cheques are returned direct to the banker whose crossing they bear. All country cheques not returned, or advised, by the morning of the third day, are assumed to be paid, and credit is accordingly given for them in the clearing of that day, and the amount is settled for, along with those advised paid, in the final balance. All country cheques held by London bankers returned unpaid, must be returned into the hands of the clerk representing the delivering bank by half-past twelve on the morning of the third day, and they are simply deducted from the total of the country cheques on the day of settlement, and the balance only is settled in the final amount.

The balance only of the country clearing is brought into the final settlement on the town clearing balance sheet, as will be seen on reference to the form given on page 333.

The C. H. on the same form means "Clearing-House," and is meant for the adjustment of differences.

Having given a description of the operations of the clearing and the means by which these are carried out, it now remains for us to describe the process of the final balancing and the mode of settlement of the entire clearing.

We shall suppose that each clerk has balanced with his twenty-six neighbours. He then proceeds to fill in the balances, in his favour or against him, as the case may be, on his Clearing Balance Sheet (see form). For the sake of example we shall take the National Provincial Bank's

balance sheet, and shall suppose that three-fourths of the other clearing bankers are due that bank balances of various amounts aggregating the sum of £999,000 19*s.* 11*d.*, and that that bank are due the remaining fourth of the clearing bankers various balances amounting in the aggregate to the sum of £762,956 17*s.* 9*d.* There is thus a balance in favour of the National Provincial Bank of £236,044 2*s.* 2*d.* This balance is not brought into the till of the National Provincial Bank in cash and bank notes, as would have been the case prior to 1854. It is simply transferred to the credit of their account at the Bank of England, out of the account kept at the same institution called the "Clearing Bankers' Account."

The following are the forms used in making such a transfer.

(No. 1.)

SETTLEMENT AT THE CLEARING-HOUSE.

London, _____, 1880.

To the Cashiers of the Bank of England.

Be pleased to credit our account the sum of Two hundred and thirty-six thousand and forty-four pounds 2*s.* 2*d.* out of the money at the credit of the account of the Clearing Bankers.

For the National Provincial
Bank of England,

£236,044 2*s.* 2*d.* A B

Seen by me
Inspector at the Clearing-House.

For which the Bank gives the following certificate:—

(No. 2.)

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England.

_____, 1880.

The account of the National Provincial Bank of England has this evening been credited with the sum of Two hundred and thirty-six thousand and forty-four pounds 2*s.* 2*d.* out of the money at the credit of the account of the Clearing Bankers.

For the Bank of England,

£236,044 2*s.* 2*d.*

On the other hand, let us suppose that the final balance of the clearing instead of being in *favour* of a banker is *against* him. For the sake of further example, we shall suppose that Barclay and Co. are due two-fifths of the other clearing bankers various balances amounting in all to £736,504 3*s.* 8*d.*, and that the remaining three-fifths are due them various balances amounting in all to £685,302 19*s.* 6*d.* In this case it will be seen that instead of having to receive from, they have to pay to, the clearing the sum of £51,201 4*s.* 2*d.* And here again, instead of having to receive so many bank notes and gold, silver, and copper, from those bankers whose balances were in favour of Barclay and Co., and paying in a similar manner those bankers whose balances were against them, as they would have had to do prior to 1854, Barclay and Co. now would have to settle the final balance against them by simply giving the following order on the Bank of England:—

SETTLEMENT AT THE CLEARING-HOUSE.

London, ——————, 1880.

To the Cashiers of the Bank of England.

Be pleased to transfer from our account the sum of Fifty-one thousand two hundred and one pounds 4*s*. 2*d*., and place it to the credit of the account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors signified by his countersigning the Drafts).

Barclay and Co.

£51,201 4*s*. 2*d*.

For which the Bank signs the following certificate:—

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England.

——————, 1880.

A transfer for the sum of Fifty-one thousand two hundred and one pounds 4*s*. 2*d*. has this evening been made at the Bank from the account of Messrs. Barclay and Co. to the account of the Clearing Bankers.

For the Bank of England,

£51,201 4*s*. 2*d*.

This certificate has been seen by me
Inspector.

It is plain that by the operation of the account of the clearing bankers kept at the Bank of England, into which those clearing bankers whose balances are against them, pay, and out of which those bankers whose balances are in their favour, draw, the gigantic transactions of the London

Clearing-House are day by day settled without the aid of a single penny.

To show the enormous operations passed annually through the Clearing-House, and the economic effects involved therein, we append a table of the statistics collected by Sir John Lubbock during the past thirteen years:—

TABLE *showing the total amount of Bills, Cheques, &c., paid at the Clearing-House during each year (ending April 30th) from* 1867-8 *till* 1879-80, *together with the amounts on the fourths of the month, on the Stock Exchange Settling Days, and on the Consols Settling Days.*

	Total for the Year.	On Fourths of the Month.	On Stock Exchange Account Days.	On Consols Settling Days.
	£	£	£	£
1867-1868	3,257,411,000	147,113,000	444,443,000	132,293,000
1868-1869	3,534,039,000	161,861,000	550,622,000	142,270,000
1869-1870	3,720,623,000	168,523,000	594,763,000	148,822,000
1870-1871	4,018,464,000	186,517,000	635,946,000	169,141,000
1871-1872	5,359,722,000	229,629,000	942,446,080	233,843,000
1872-1873	6,003,335,000	265,965,000	1,032,474,000	243,561,000
1873-1874	5,993,586,000	272,841,000	970,945,000	260,072,000
1874-1875	6,013,299,000	255,950,000	1,076,585,000	260,338,000
1875-1876	5,407,243,000	240,807,000	962,595,000	242,245,000
1876-1877	4,873,000,000	231,630,000	718,793,000	223,756,000
1877-1878	5,066,533,000	224,190,000	745,665,000	233,385,000
1878-1879	4,885,091,000	212,241,000	811,072,000	221,264,000
1879-1880	5,265,976,000	218,477,000	965,533,000	233,143,000

There are also clearing-houses established in Manchester, Liverpool, and Newcastle. In Ireland, also, the system has long been in operation; while in Scotland, as has already been said, the plan of clearing was first introduced into this country, and was first reduced to a scientific system. All clearing-houses in the country perform precisely the same functions as the London Clearing-

House, and therefore no lengthened description of them is necessary. No doubt their arrangements and systems differ in some cases in detail, but for all practical purposes the description of the London system will be sufficient.

As an example of the economy of labour which can often be effected, it may be worth mentioning that in Scotland the banks use clearing books having every alternate sheet perforated down the inside margin. The charges against the other banks are written up in pencil on the unperforated sheets, and by the aid of a sheet of carbonized paper placed underneath, an impression of the items is taken on the perforated sheets. These duplicates are then torn out and handed over with the relative articles to the clerks of the other banks, who simply compare the one with the other and so save the time and trouble of taking down afresh in their own books the amounts of the various articles. When the clerks return to their respective banks, these duplicates are gummed upon the margins from which their own delivering sheets had been detached, and so in one book there is a handy record of the articles delivered to, and the articles received from, each bank, following each other.

Copies in pencil of course are not so permanent as records in ink, but this is really no objection to the system, as the copies are sufficiently permanent for all necessary purposes. All abstracts of totals, balances, &c., are of course kept in permanent form in books written up in ink.

If such a system is not adapted for the London clearing, it is at least a question whether some such plan as that mentioned above might not be adopted in the remittance by country bankers of dividend warrants, so that these might pass in bulk to the debit of the various railway and other accounts, instead of, as now, being taken down singly at the Clearing-House.

Specimen Form of the London Bankers' Clearing Balance Sheet.

THE NATIONAL PROVINCIAL BANK OF ENGLAND.

Debtors.			Creditors.		
		Alliance			
		Barclay			
		Barnett			
		Bosanquet			
		Brown			
		Central			
		City			
		Consolidated			
		County			
		Dimsdale			
		Fuller			
		Glyn			
		Imperial			
		Joint Bank			
		Lond & South Westn.			
		London & Westr.			
		Martin			
		Metropolitan			
		National			
		Prescott			
		Robarts			
		Southwark [1]			
		Smith			
		Union			
		Williams			
		Country Clearing			
		C. H.			

[1] This is the Southwark branch of the London and Westminster Bank, which clears separately.

SECTION XXXVI.

THE PANICS OF 1857 AND OF 1866.

MR. GILBART'S estimate, in a former section, of the effects of the Bank Charter Act of 1844, in producing that singularly similar sequence of variations in the rate of interest "to which we must always be liable as long as our currency is regulated by the Act," has been amply verified by subsequent experience. Nor are these fluctuations of rise and fall in the bank rate more marked in the regularity of their fitfulness, than is the recurrence of those far more momentous periodic changes in the money market which entail misery upon thousands of happy households, and even bring nations themselves to the verge of bankruptcy.

It has been remarked that panics recur at regular intervals of about ten years each; nor can this be wondered at, seeing that the years 1825, 1837, 1847, 1857, and 1866 have, from various causes, been marked by the catastrophes so named. Judging by this recurrence of disasters at an apparently fixed period, it is not surprising that in the popular mind there seems to be a belief that a cycle exists, fated to bring in its train ruin to the monetary world and to millions outside of it. The dominant causes of the panics of the years specified, and their distinguishing characters, differ in some essential particulars. In one feature, indeed, they are all alike—the unreasoning fear which heralds, accompanies, accelerates, and sometimes produces them.

Like the awful panic of 1825, that of 1857 came suddenly upon the public. A general delusion had prevailed in the former year, countenanced by the speeches from the throne on the opening and on the prorogation of Parliament, as well as by the complacent remarks of members of both Houses, that the country was about to enjoy an era of unexampled prosperity. Peru and Mexico were to pour into her lap the fabled wealth of El Dorado, and the golden sands of Pactolus to be eclipsed by the treasures which every tide would bring up the Thames. By the end of the year those fairy visions had disappeared before stern realities. It was the same in 1857. Families that had been living in opulence, were in a few brief agonizing hours reduced to beggary and plunged in despair—their fortunes gone, their hopes dreams. Labour was driven from its accustomed fields; commerce laid prostrate; credit all but extinct; energy paralyzed; fear and distrust in the ascendant; and enterprise a departed spirit. The gloom was universal, for thousands in every rank of life were ruined.

In sober truth, the crisis of 1857 fell upon the commercial world like a thunderbolt. Notwithstanding the extra expenditure entailed by the Crimean war, peace was concluded before the national resources had been strained beyond the limit their strength could bear.

"A period of nearly ten years," says an able writer, "uneventful as far as commercial disaster is concerned, may be passed over in silence, except to remark that in 1852 consols attained their maximum price since 1737, namely 101⅞. The beginning of the memorable year, 1857, seemed to promise a long period of commercial ease, but the outbreak of the mutiny in India, the consequent suspension of remittances from that quarter, and the inverse demand for specie, the demand for capital to supply mate-

rials of war to the Government and the East India Company—all those causes tended to depress the funds. In January they reached 94⅜; in November, they fell to 87½—lower than at any time since January, 1856, during the pressure of the Russian war." [1]

Even so late in the year as the month of August, the public were unapprehensive of the storm soon to ensue, and few or none foresaw the severity with which it would rage. During the inquiry which followed, the Governor of the Bank stated:—

"Things were at this time pretty stationary; the prospects of harvest were very good; there was no apprehension that commerce was otherwise than sound. There were certain more far-seeing persons who considered that the great stimulus given by the war expenditure, which had created a very large consumption of goods imported from the East and other places, must now occasion some collapse; and still more those who observed that the merchants, notwithstanding the enhanced prices of produce, were nevertheless importing as they had done successfully in the previous years. But the public generally viewed trade as sound, and were little aware that a crisis of any sort was impending, far less that it was so near at hand."

The crisis of 1847 had been owing chiefly to excessive railway speculations at home; this of 1857 was mainly due to over-trading abroad.

About the middle of September the mails brought disastrous news from the United States. American railway securities had fallen nearly 20 per cent. The railway accounts had long been "cooked," and the too well-known results of the process followed — sudden and enormous depreciations of railway stock, widely-spread distrust, a

[1] "Commercial Panics," by Arthur Locker: *Companion to the British Almanac.* 1867.

drain upon the American banks, and failures shaking commercial credit to its centre. The proximate cause of this terrible crisis in America was the stoppage of the Ohio Land and Trust Company; an establishment which made advances on financial securities, and which, at the time it stopped payment, held deposits to the amount of £1,200,000. Hereupon, a deliberately planned system of "bearing" operations was put in movement, which was described in the "Times" City article of September 10, 1857, as follows:—

"There is actually a powerful combination for the avowed purpose of bringing all the principal undertakings to ruin. A large body of active persons are known to be associated for the purpose: they influence the press to work out their views, and are alleged not merely to operate with a joint capital, but to hold regular meetings, and permanently retain legal advisers, whose chief vocation, it may be assumed, is to discover points that may enable the validity of each kind of security to be called in question, and thus to create universal distrust."

The downfall of the Ohio Land and Trust Company had been quickly followed by the failure of 150 banks in Pennsylvania, Maryland, Virginia, and Rhode Island; and since no less than eighty millions of American railway stock were computed to be held in England, a large demand for bullion on American account set in here. The run for deposits in specie on the New York banks brought about by the villainous "bearing" organization noticed above, swelled distrust in America into a panic, which soon reacted on England. By the middle of October failures began to be numerous here. Liverpool and Glasgow, ever necessarily the most sensitive to fluctuations in the American markets, exhibited unmistakable indications of the probable severity of the coming storm.

Rumours spread affecting the Borough Bank of Liverpool[1] and the Western Bank of Scotland; and the alarm in London, where failures were following in quick succession, rose to its height when, on November 7th, the great firm of Dennistoun and Co., which had numerous agencies in America and Australia, stopped payment, with liabilities of about two millions; and when, on the morning of the 9th, news arrived of the failure of the Western Bank of Scotland for between six and seven millions. Together with this intelligence came a call for gold from Scotland, a most unexpected, because unusual and exceptional circumstance at that time of the year. Three hundred thousand sovereigns were despatched to meet this demand; and when, on the 11th of November, the city was excited by the suspension of Sanderson and Co., a great discount house, with liabilities to the amount of upwards of five millions, when further demands for gold came from Scotland, when large calls followed from Ireland as well, when failure succeeded failure, and the utter rottenness which had pervaded the commercial world became apparent, and general bankruptcy seemed imminent—recourse was had, for the second time, to the panacea—suspension of the Bank Act of 1844. Government authorized the Bank of England to exceed the prescribed limit of its issues by discounts and advances upon approved securities.

This authorization, which was given on the 12th, at once quieted the public mind; but there was this notable difference between the effects of the first suspension of the Act in 1847 and of the present, that whereas in that year the mere notice of suspension had operated as a charm, and notes to the amount only of £400,000 were actually issued in excess of the statutory limit,—in 1857 the bank issued, from November 13th to the end of the month,

[1] Not long afterwards it stopped payment.

no less than £6,776,000 of notes beyond the limit (£14,475,000) fixed by the Act.[1] Nor did the reverses consequent upon fraudulent financial management and reckless overtrading end with the allaying of the general panic. Trade with America had acquired such development here and on the continent, in Germany especially, that failures in the Hanse Towns and other centres of commerce brought about the downfall of many English houses in this connection, and, superadded, were stoppages of large firms connected with the Baltic trade; among them the Northumberland and Durham Bank for three millions—so that it was hardly before the close of 1858 that the collapse of dishonest trading and fictitious credit was complete, and commercial affairs resumed their legitimate course.

We have said that the crisis came upon the world without a note of warning, and remarked that the consequences of the financial earthquake which shook the moneyed institutions of America to their base, were severely felt on the continent, as well as in the United Kingdom. In the autumn of 1857 (August 17) the Bank of England entered into a negotiation with the East India Company to supply a million in specie for transmission to the East. At this date the bullion was £10,606,000, the reserve £6,296,000, and the rate of discount 5½. By the 8th of October, the bullion had fallen to £9,751,000, the reserve to £4,931,000, and discount was raised to 6 per cent. On the 12th, the rate was raised to 7 per cent., and on the 19th to 8 per cent. By this time the bullion had sunk to £8,991,000, and the reserve to £4,115,000. At Paris, discount had risen to 7½, and at Hamburgh to 9 per cent. On the 5th of November the Bank of England raised its rate to the latter figure, and on the 9th, to 10 per cent.; whilst the

[1] Now raised to £15,000,000.

Bank of France raised its rates to 8, 9, and 10 per cent. for one, two, and three months. By the 11th, the bullion in the bank was reduced to £6,666,000, and the reserve to £1,462,000. So that at this date there was a decrease, since the middle of August, of about four millions in the bullion, and of close upon five millions in the reserve. As soon as the pressure had begun to be felt, a great demand for gold on American account had set in; and in the interval between this period and the rise of the crisis to panic height, large amounts of specie had to be sent to Scotland and Ireland, whilst the discounts meantime were in proportion to the magnitude of the calls for assistance; on the 12th, they amounted to £2,373,000. The state to which the bank was reduced on the evening of this eventful Thursday, when the Act was suspended, is shown by the startling fact that its total reserve in London was but £384,144, and at its branches, only £196,607 more. The bankers' balances alone against it on this very evening were £5,458,000. It is clear, therefore, that but for the suspension of the Act the bank must have stopped. The "Times" observed:—

"On the merits of this step" (the suspension) "we will say but little. It may be consistent with the maxims of political economy to regulate the issue of notes in ordinary times, and thus to check rash speculation and the embarkation in business of men destitute of capital, while when an actual dearth of money prevails, the chief banking institution of the country may be allowed to extend its issue of notes under a public guarantee. But if such is to be the principle of our monetary system, the sooner it is embodied into a law the better. If the bank is to extend its legal issue of notes as often as its rate of discount is necessarily raised above a certain point, then an Act of Parliament should establish the practice on sound and in-

telligible principles. The commercial interests of the country should not be subjected to a system by which a law is obeyed as long as obedience is easy, and temporarily swept away as often as pressure or panic supervenes. The houses which, in 1847 and 1857 have stopped payment before the relaxation of the law, may well complain that, while they have been crushed by the operation of the Bank Charter Act, others not more solvent or of higher standing than themselves have been saved by the suspension of it."

The commercial atmosphere having been cleared by the monetary hurricane of 1857, a period of comparative tranquillity ensued. The bank rate of discount was not reduced below 5 per cent. until the bullion in its vaults exceeded £15,000,000; but, generally speaking, its rate was moderate throughout 1859 and 1860, and, with the exception of a rise to 8 per cent. in 1861, which was but of brief duration, the same may be observed of that year and of 1862. Owing to the large issues of paper money in America by the belligerent governments of the North and South, bullion soon disappeared from circulation in the warring States, and floated hither. Hence money was plentiful and its price easy. But the advantage was soon more than counterbalanced by the monetary derangement ensuing from the absence of the supply of cotton from the Southern States—itself a consequence of the civil war then and there raging. The price of this great staple of British manufacture rapidly rose. Supplies had to be sought from new sources, and had to be paid for in cash. The drain which then set in, and the apprehension of over-speculation excited by the number of new companies forming under the Limited Liability Act, which came into operation at this conjuncture, caused a general uneasiness. This state of feeling commenced in the fall of 1863. Between this date and the summer of 1864 the fluctuations

in the bank rate of discount evidenced the feverish condition of the country. On one occasion the Bank of England raised its rate twice in one week, from 5 to 6, and then to 7 per cent. This was in the winter of 1863; and again in May, 1864, it raised its rate, twice in one week, to 9. In fact, the rate of discount during this period was continually oscillating. Similar disturbance of the money market was manifested in France; occasioned, primarily, by the American civil war, and the failure in the supply of cotton. Large amounts of specie were drawn from the Bank of France, which raised its rate of discount several times, concurrently with the Bank of England, and to the same figure.

"Already in March, 1864," writes Mr. Macleod, "the number of new companies formed under the Limited Liability principle gave great uneasiness. Up to that time it appeared there were 263 companies formed, with a nominal capital of £78,135,000, out of which 27 were banks, and 15 discount companies. In August, 1864, the long-dated acceptances of the new financial companies began to press on the market, and lay the foundation of the crisis of 1866."

On the 20th of June, 1865, the rate of discount reached its minimum, 3 per cent. From the 3rd of August to the 28th of September, the minimum rate of discount was 4 per cent.; on the 28th of the same month it was raised to $4\frac{1}{2}$, on the 2nd of October to 5, on the 5th to 6, and on the 7th to 7 per cent.—a rise of 3 per cent in nine days. In November a drain set in of gold to Paris, and of silver to the East. The bank raised its rate in January, 1866, from 7 to 8. At the same time, the Bank of France raised its rate from 4 to 5 per cent.; and this simultaneous rise seems to have exercised a healthy influence upon jobbers and speculators. February, 1866, was a period of intense

perturbation among the holders of miscellaneous securities. Some large firms engaged in railway contracts suspended payment. Investments became unmarketable which a few months before had been eagerly sought after, and the public scouted concerns which had "floated" readily during the Limited Liability mania. Suspicion everywhere prevailed, and all kinds of securities were thrown upon the market at once. And, finally, a large percentage of the companies formed under the Limited Liability Act of 1862 were daily wound up, to the serious hindrance of the ordinary business of the courts.

But it was the break-up of the Joint-Stock Discount Company, which first raised any acute alarm; then followed the stoppage in April of Barned's Bank, at Liverpool, with liabilities of three and a half millions. The fright culminated into universal panic. On the 3rd of May, the bank raised its discount from 6 per cent., the quotation for the previous month, to 7; on the 8th, to 8; on the 9th to 9. And on the 10th the most disastrous failure that ever filled the City with panic and dread, the stoppage of the great house of Overend, Gurney, and Co., for upwards of ten millions sterling, took place, and the bank raised their rate to 10 per cent. This momentous news was only known after banking hours; but when made public by the papers the next morning, that of Friday, the 11th, the scene of excitement which then took place is said to have thrown all previous wild terrors of the kind into the background; it was, said the Chancellor of the Exchequer, next evening in the House of Commons, declared by the oldest inhabitants of the City to have been without a parallel.

The following was the account given by the "Times," in its impression of May 12, 1866, of this bewildering scene:

"The doors of the most respectable banking houses

were besieged, more, perhaps, by a mob actuated by the strange sympathy which makes and keeps a mob together, than by creditors of the banks; and throngs, heaving and tumbling about Lombard Street, made that narrow thoroughfare impassable. The excitement on all sides was such as has not been witnessed since the great crisis of 1825, if indeed the memory of the few survivors who shared that panic can be trusted when they compare it with the madness of yesterday. Nothing had happened since the day before to justify such a fear as was everywhere shown. Rumour, however, like the false woman in the Laureate's legend, 'ran riot amongst the noblest names,' and left no reputation unassailed. Each man exaggerated the suspicions of his neighbour; and until a report, at that time unfounded, was circulated in the afternoon, that the Government had authorized the bank directors to issue notes to the extent of five millions beyond the limit imposed by the Bank Charter Act, it seemed as if the fears and distrust of the commercial world had become boundless."

A writer in the "Bankers' Magazine" says:—

"A greater crash has never taken place in any one week in any country in the world. Looking at the list of suspensions, it will be seen that their business ramifications are more than European. More or less they embrace all the four quarters of the world, and we have yet to feel the reaction from the effect which the news will produce as it extends from point to point."

The fever was at its height, the crisis had set in, and, for the third time, suspension of the Bank Charter Act wrought the cure. In reply to the questions certain to be asked in the House of Commons on emergencies of the kind, the Chancellor of the Exchequer said:—

"I stated in the commencement of the evening that

representations had been made to me from quarters of the greatest influence and credit with respect to the extraordinary state of the market, and the distress prevailing in the city to-day. I stated that those representations had come to me from gentlemen representing in particular the private banks of London, and I expected that I should shortly have received similar representations from those connected with the joint-stock banks. Those representations I have received accordingly, and they were pressed even more earnestly and urgently than I anticipated. I stated also, at the time when I had the honour of addressing the House, that the effects of the day's proceedings through the Bank of England had not been fully given to us. Since then we have become acquainted with them, and we find that the bank, through a desire to extend relief, has raised its loans and discounts to-day to a sum of something more than £4,000,000. The effect of that large accommodation was to reduce the reserves of the bank to a sum not very far short of £3,000,000 of money. Under these circumstances, as far as the facts are known, and there being no reason to believe that any great change has occurred in the state of things, the estimate is sufficiently accurate for all practical purposes, we find the bank reserves reduced in a single day from a sum approaching £6,000,000 to a little exceeding £3,000,000. The Government have felt that this is a state of things which, combined with the public feeling, calls for intervention on their part. We have taken the opportunity during the evening of considering the state of the facts, and the result has been that we have addressed a letter to the governor and deputy-governor of the bank, substantially the same as was addressed to those high officers in 1847 and 1857. That is to say, if the bank, proceeding upon its usual prudent rules of administration, shall find occasion to make

such advances from the issue department as shall exceed the limits allowed by law, we recommend that they should not hesitate to make that issue, and we undertake to make immediate application to parliament for its sanction. (Cheers.) There are other points of detail, but that is the substance of the letter which shall be in the hands of the governor and deputy-governor of the bank to-morrow, and which I earnestly hope may have the effect of allaying the feeling of uneasiness which prevails in the country, especially as it does not arise from any general unsoundness in the condition of our commercial relations, but only from causes of a peculiar and specific character. In that respect we are able to draw a favourable distinction between the present crisis and others in former times; but there is also another distinction, and that is the extraordinary rapidity with which the crisis has come upon us, and which has prevented the adoption of measures which otherwise would have been taken for its relief. We have not, however, hesitated to act, to address ourselves to the subject with all the means in our power, and we trust that our proceedings will meet with the approbation of Parliament." (Cheers.)

The foregoing took place on the evening of the 11th; and on the 17th the Chancellor was again interrogated as follows:—

Captain Gridley asked the Chancellor of the Exchequer:

"Whether he was aware that the directors of the Bank of England had declined to make advances upon the lodgment of Government securities, on the ground that they ought to be realized; and whether he considered the directors had complied with the expressed understanding that they, on getting permission to increase the issue of bank notes, were to afford accommodation to bankers and merchants."

Mr. Wyld asked the Chancellor of the Exchequer:

"If it were true that the Bank of England had refused to make advances on consols, and had otherwise neglected to give to merchants, bankers, and others, the accommodation not only implied, but expressed, when they obtained power to increase their issue of notes."

The Chancellor of the Exchequer:

"It may be convenient that, in answering the questions of the hon. members, I should combine them together, as they are so nearly akin. In the first place, I may say that I have not received complaints from any persons who consider themselves aggrieved by the conduct of the Bank of England. At the same time, certain rumours have gone abroad, and it is in respect of those rumours, as embodied in the questions of the hon. members, that I give my reply. The two points principally raised are these. First, whether I am aware that the directors of the Bank of England have declined to make advances upon the lodgment of Government securities, on the ground that they ought to be realized; and, secondly, whether I am of opinion that the directors have complied with the express understanding that they, on getting permission to increase the issue of bank notes, were to afford accommodation to bankers and merchants. I think these questions have been very opportunely put, because they enable me to remove a misapprehension that has got abroad, and which appears, from all that I can see, to have taken possession to a certain extent of the public mind. The misapprehension refers equally to the subject of advances upon bills and discounting of bills, and to advances upon Government securities. The best account that can be given of the operations of the Bank of England with regard to these two great branches of banking, is to state the figures relating to them, and I think it will be found on referring

to them that the Bank of England has not refused to make advances on Government securities. These figures are as follows:—The advances made by the Bank of England on Government securities on Friday, the day of the panic, amounted to £919,000, on Saturday to £747,000, and on three subsequent days various amounts, making up the total amount advanced on these securities, in five days, to £2,874,000. (Hear, hear.) Then with regard to the accommodation of commerce in general, the best measure that can be given of the manner in which the bank has exercised its functions is shown in this—that it has made advances upon bills and has discounted bills to the extent of £9,350,000, making a total of advances and discounts in five days of £12,225,000. (Hear, hear.) Looking at these figures, I do not think that a very strong *primâ facie* case has been made out of the bank having declined to afford to commerce the accommodation it should have given, but it is only due to the bank that I should point out certain words in the letter of Government which were expressly intended to serve as a notice to the world that the Bank of England was not to be expected, in the then circumstances of difficulty, to depart from all rules of caution. The conditional promise made in the letter, signed by the First Minister and myself, was a promise to apply to Parliament for its sanction, in case it should happen that necessity should require the bank, for the purpose of making advances and discounting bills, to issue notes beyond the limit fixed by law, subject to the restriction that the bank was not to give to everybody everything that was asked, but that it should be governed by those prudent rules of caution by which it was generally guided. That was a very important limitation, and it reserved, I think, entirely, as it was meant to do, the discretion of the gentlemen of the Bank of

England, in whom we have every reason to place confidence. With regard to the Government securities and other points, the foundation upon which the rumours rest is of the slightest possible nature. I cannot find that there is any possible ground for supposing that any limit was placed by the bank on its advances on securities, either upon Friday, the day of the severest pressure, or upon Saturday, which was also a critical day; but on Monday, when the panic began to subside, and when Government securities were brought to the bank for advances, the bank directors suggested, in various instances, to the holders of those securities, that it would be better for them to try the open market and to realize for themselves. (Hear, hear.) In consequence of that view—in my opinion, not an unreasonable one on the part of the directors of the bank—certain sales of securities were effected. These sales, I believe, were effected by one, two, or three persons only; and whenever representations were made to the bank that sales could not be made—meaning, I presume thereby, without serious loss—the bank met all the reasonable demands of the parties. With respect to other kinds of accommodation, commercial accommodation strictly so called, I have not been able to discover, nor are the authorities at the bank aware of any other ground for the rumours existing than the circumstance that applications did arise from one or two quarters, not for an amount of discount to a given limit, but for an unlimited amount of discount to be made use of in case necessity should arise. The directors of the Bank of England did not consider that their duty compelled them to accede to such demands, and, as far as I am able to judge, I think that, under the circumstances of the times, they acted wisely in giving no engagement to meet an unlimited amount of discount. That, I believe, to be the

sole foundation for the rumours which are abroad. I think the explanation I have given is one which the House will be glad to receive, and I believe that the authentic figures which I have stated to the House will do more than any mere verbal statement to explain the liberal, yet judicious manner in which the operations of the Bank of England are conducted at critical periods. I hope the effect of such communications will be that all that hereafter transpires with respect to the state of the bank will tend not to disturb, but further to compose the public mind." (Cheers.)

Annexed is the correspondence which passed between the Government and the bank on this momentous occasion :—

"Bank of England, May 11, 1866.

"SIR,

"We consider it to be our duty to lay before the Government the facts relating to the extraordinary demands for assistance which have been made upon the Bank of England to-day, in consequence of the failure of Messrs. Overend, Gurney, & Co.

"We have advanced to the bankers, bill brokers, and merchants, in London, during the day, upwards of four millions sterling, upon the security of Government stock and bills of exchange—an unprecedented sum to lend in one day, and which, therefore, we supposed would be sufficient to meet all their requirements, although the proportion of this sum which may have been sent to the country must materially affect the question.

"We commenced this morning with a reserve of £5,727,000, which has been drawn upon so largely that we cannot calculate upon having so much as £3,000,000 this evening, making a fair allowance for what may be remaining at the branches.

"We have not refused any legitimate application for assistance, and unless the money taken from the bank is entirely withdrawn from circulation, there is no reason to suppose that this reserve is insufficient.

"We have the honour to be, Sir,

"Your obedient Servants,

(Signed) "H. L. HOLLAND, *Governor.*

(Signed) "THOS. NEWMAN HUNT, *Deputy-Governor.*

"The Right Hon. the Chancellor of the Exchequer, M.P.
&c. &c. &c."

"*To the Governor and Deputy-Governor of the Bank of England.*

"Downing Street, 11th May, 1866.

"GENTLEMEN,

"We have the honour to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England, under the circumstances of sudden anxiety which have arisen since the stoppage of Messrs. Overend, Gurney, & Co., Limited, yesterday.

"We learn with regret that the bank reserve, which stood so recently as last night at a sum of about five millions and three-quarters, has been reduced in a single day by the liberal answer of the bank to the demands of commerce during the hours of business, and by its great anxiety to avert disaster, to little more than half that amount, or a sum (actual for London and estimated for the branches) not greatly exceeding three millions.

"The accounts and representations which have reached her Majesty's Government during the day exhibit the state of things in the city as one of extraordinary distress and apprehension. Indeed, deputations composed of

persons of the greatest weight and influence, and representing alike the private and joint-stock banks of London, have presented themselves in Downing Street, and have urged, with unanimity, and with earnestness, the necessity of some intervention on the part of the State, to allay the anxiety which prevails, and which appears to have amounted, through great part of the day, to absolute panic.

"There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital consideration of banking credit does not appear to have been involved in them, as it is in the present crisis.

"Again, the course of affairs was comparatively slow and measured, whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion. Lastly, the reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and in view especially of this circumstance her Majesty's Government cannot doubt that it is their duty to adopt, without delay, the measures which seem to them best calculated to compose the public mind, and to arrest the calamities which may threaten trade and industry. If, then, the directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that, in order to meet the wants of legitimate commerce, it be requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

"No such discount or advance, however, should be granted at a rate of interest less than 10 per cent., and her Majesty's Government reserve it to themselves to recommend, if they should see fit, the imposition of a higher rate. After deduction by the bank of whatever it may consider to be a fair charge for its risk, expense, and trouble, the profits of these advances will accrue to the public.

"We have the honour to be, gentlemen,
"Your obedient Servants,
(Signed) "RUSSELL.
(Signed) "W. E. GLADSTONE."

The official correspondence is completed by the following letter and accompanying resolutions:—

"*To the Right Hon. Earl Russell and the Right Hon. W. E. Gladstone, M.P.*

Bank of England, May 12.

"MY LORD AND SIR,

"Having laid before the court of directors the letter received from you yesterday with respect to a further issue of notes, if necessary, beyond the limit affixed by the Act of 1844, we have now the honour to enclose a copy of the resolutions of the court thereupon.

"We have the honour to be, my Lord and Sir,
"Your most obedient servants,
"H. L. HOLLAND, *Governor.*
"THOS. N. HUNT, *Deputy-Governor.*"

"(*Copy of Resolutions Enclosed.*)

"At a court of directors of the bank, on Saturday, the 12th of May, 1866.

"*Resolved*,—That the governors be requested to inform

the First Lord of the Treasury and the Chancellor of the Exchequer that the court is prepared to act in conformity with the letter addressed to them yesterday.

"*Resolved*,—That the *minimum* rate of discount on bills not having more than ninety-five days to run be raised from 9 to 10 per cent.

"HAMMOND CHUBB, *Secretary*."

In Patterson's "Science of Finance," pp. 237-239, the following observations are made with reference to the suspension of the Bank Act on this occasion :—

"It was midnight before the announcement was made. In the interview which the deputation from the banks had with the Chancellor of the Exchequer, the necessity of suspending the Act was urged upon the Government by all present, except the representative of the Bank of England. This was mere bravado on the part of the bank. The other banks could have shut it up at once, simply by withdrawing the reserves which they keep at the bank. Indeed, one of the representatives of the joint-stock banks is reported to have said plainly, addressing the bank's representative, "I can draw a couple of cheques to-morrow morning which will shut you up at once." The Bank Directors knew this quite well; but they knew also that they could indulge in bravado safely, as it was perfectly certain that the Bank Act must be suspended. . . . The effect of the announcement of the suspension of the Bank Act was so salutary that next day (Saturday) it was generally thought that the crisis was at an end. But, as became visible in a day or two, the crisis was not at an end—the panic revived. Large commercial failures began, imperilling the banks which held the bills of the fallen merchants; the 'bearing' operations went on; a run for deposits was kept up on several of the banks. It was

impossible for these establishments to convert their securities into bank-notes in sufficient amount to meet the run upon them. After paying out 50 per cent. of its deposits in cash, the Bank of London (a substantially solvent establishment) had to stop; as almost every bank in like circumstances must do. When the Bank of London stopped, the Consolidated Bank came to the rescue. . . . But as the Consolidated Bank did not engage to take over the 'acceptances' of the Bank of London, the legality of the arrangements between the two banks was challenged, and the Consolidated Bank was threatened with a suit in Chancery. In these circumstances, the Consolidated Bank was unable to meet the run upon it; and after paying out a large sum to the depositors of the Bank of London as well as its own during a struggle of three days, it closed its doors. After a still longer struggle—and mainly in consequence of a lying telegram sent from this country to Bombay, announcing its failure—the Agra and Masterman's Bank was likewise compelled to suspend payment.

"Contemplate the magnitude of the disaster. Overend, Gurney, and Co., the oldest and most powerful discount-house in the kingdom—the English Joint-Stock Bank, which fell because a large portion of its deposits was locked up in the stoppage of Overend and Co.—the Imperial Mercantile Credit Company, the European Bank, the Bank of London, the Consolidated Bank, and the Agra and Masterman's, with its wide-spread connections, were wrecked during that terrible season of panic. All three—the Bank of London, the Consolidated Bank, and the Agra and Masterman's—were perfectly solvent establishments; and the two latter subsequently resumed business. Their suspension (which was only momentary in the case of the Consolidated Bank) was caused not

by a want of assets, but from the impossibility of converting their assets into currency (Bank of England notes), in order to meet the unusual demand upon them."

The several panics that have occurred have originated, or are supposed to have originated, in as many distinct causes. Thus, the panic of 1825 has been ascribed to anticipated profits on working foreign mines; that of 1836 chiefly to the rapid extension of joint-stock banks; that of 1847 to excessive railway undertakings; that of 1857 to reckless over-trading; and that of 1866 (mainly due to a mistaken estimate of the advantages of the Limited Liability Act, which led to the too rapid formation of financial companies), has been styled a "banking panic." But, although it be true that each crisis of the kind is in large part produced by a distinct proximate cause, yet the primary cause of each and all is inordinate speculation begotten of the lust of gold. Men are in haste to be rich. This is no new thing. It has been observable in all times, and in all countries. But the fact is more patent now than ever. Men live, as they journey, at railroad pace. So long as appearances can be kept up, they "lay the flattering unction to their souls" that some lucky hit will make all right. Honesty gives place to expediency. Shifts, evasions, trickery, undermine the moral sense, and grow into confirmed habits. The shams of private life are transported into men's public business. To seem is to be. Existence is undervalued unless men can "grow to what they seem" as respects wealth, and hence petty frauds develop into gigantic swindles.

The disclosures elicited by the Select Committee of the House of Commons (appointed, after the panic of 1857, to inquire into the operation of the Bank Act of 1844), and published in their Report issued the succeeding year,

show, so instructively, the mechanism of the "bubble-blowing," whose brilliant but evanescent colours dazzle and bewilder the public eye so as to cheat the multitude into a belief of the airy nothings being globes of solid metal, that we quote largely from its warning pages. It is to be regretted that a like inquiry was not instituted after the panic of 1866. Revelations of even more startling character would, most probably, have been the result. The exposure of the machinery of commercial fraud, of banking incapacity, and of general gullibility which we proceed to extract, will, however, apply, *mutatis mutandis*, to every monetary crisis yet recorded; and affords far too valuable a lesson to be omitted. The Committee, then, report as follows:—

"The first occurrence in this country which caused alarm, was the failure of the house of Macdonald and Co., of Glasgow and London, which took place in October, and was accompanied by the failures of Monteith and Co., and Wallace and Co., of Glasgow. The house of Macdonald employed a great many work-people in sewing muslin goods for the home trade, and for the American market, and this they carried on to a very large extent. They had been in fair credit till very nearly the time of their failure, but shortly before that period they are described as having given out that they had changed their mode of doing business, for the purpose of embracing a wider field. This, however, is represented as having been a deception, intended to cover *a system to which they had recourse of drawing fictitious bills*, and to give to those bills the appearance of genuine business transactions.

"From the records of the public tribunals, it appears that a very considerable number of persons (one of the partners is said to have admitted as many as seventy-five) in London, and other places, were employed by this firm, *for*

a small commission, to put their names to fictitious bills, which were then discounted, a large proportion of them in Glasgow; and when the house of Macdonald failed, it was found to be indebted to the Western Bank £422,000.

"For a general review of the failures which occurred in England your Committee have been indebted to Mr. Coleman and to Mr. Ball, of the firm of Messrs. Quilter and Ball, both eminent accountants in London. These gentlemen do not profess to have studied abstruse questions of currency; they do not represent themselves as particularly conversant with the operation of the Act of 1844. They, however, assign what appears to your committee an adequate cause for the recent commercial crisis. Availing themselves of their experience in 1847, the affairs of which have now been finally closed, to illustrate the transactions of 1857, which still appear in estimate, and are therefore liable to correction, they ascribe the calamities of both periods to the same principal cause—viz., the great abuse of credit, and consequent over-trading. They notice also this difference between the two periods: many of the houses which fell in 1847, they say, had once been wealthy, but had long ceased to be so. Those of 1857 had, with few exceptions, never possessed adequate capital, but carried on extensive transactions by fictitious credit. In 1847, for example, one house, which had been originally wealthy, failed, with liabilities amounting, in the whole, to upwards of £1,800,000, of which not quite £1,000,000 were to be paid by other parties, leaving more than £800,000 the direct liabilities of the house. The capital, as represented in their books at the time of suspension, was £215,000, and the assets, according to their own valuation, £800,000, or nearly sufficient to meet the whole of their liabilities. Very different, however, was the valuation of the accountant, who estimated their assets at

£185,000, and even that was materially diminished in the result. *The dividend ultimately paid was only ninepence in the pound!* This firm, originally merchants, insensibly advanced their capital to planters in the East Indies, until it became necessary for them to be planters themselves. They then were compelled to obtain advances from others, which they accomplished by the sale and circulation of bills in the East Indies upon the house, to a great extent. Obtaining credit in that manner they postponed their fall many years, and ultimately fell, paying only ninepence in the pound. In this case, advances had been made on the credit of the next year's crop. This was an extreme case, and was connected with peculiar considerations at that time affecting the price of colonial produce, the principal property of the house. But Mr. Coleman, from whose evidence these particulars have been taken, says, that the estates which came under his notice as insolvent in that year, paid generally very small dividends, not averaging more than 4*s*.

"Another example of the same period is described by Mr. Ball as follows: It was that of a house which failed in 1847; they were engaged very largely as merchants in this country, and they were a house of very old standing. In the course of their business, they came under advances to a house in one of the colonies, on the security of the crops to be sent forward from time to time. The parties to whom those advances were so made failed to repay them; that is to say, to recoup the London house for them; and eventually the London house was obliged to take upon themselves the business which was originally conducted by those whom they accommodated with advances; in other words, the merchant in London did practically become the planter and the owner of estates. After he had so become the planter, his position was changed from that of being a person who made advances,

and he himself found it necessary to obtain advances. Most likely the course would be this, that the house on the other side, perhaps the correspondents themselves of the London house, would draw upon the London house, or draw upon some third party, and remit to the London house; which bill the London house would take to its banker and get discounted, and by that process would be placed in funds to provide from time to time for its own engagements. The result of which would be to sustain for some time the credit of the house, after the capital of the house had been exhausted. The effect would be to enable them to hold produce in expectation of better prices; the longer it was continued, the heavier would be the ultimate loss. After an interval of ten years, this house has, within the last few months, paid a final dividend, *making a total of* 1*s.* 10*d. in the pound.*

"Mr. Ball is asked,—

"'Looking back to the experience of the year 1847, were the dividends that were paid by the insolvent houses generally very small?'—'The average dividend would be small, so far as I recollect. Here and there would be a house which would pay in full, or would pay a very large dividend; but the general result was, that a small dividend upon the whole was received by the creditors.'

"'Looking back now, with your experience, to the results of 1847, is it your opinion that if the law had afforded greater facilities for obtaining credit at that time for the purpose of sustaining these houses longer, the result would have been more advantageous to the houses themselves, or to the community at large?'—'Knowing what I do of the internal state of those houses when they did stop, I should say that had they been able to obtain further credit for a continued period of time, it would only have had a temporary effect upon their position, and that

most of them (of course I have a reserve of some good cases in my mind), from their internal condition being worn out, and from the want of real capital in their concerns, must have failed ultimately, and that the *longer the assistance was continued simply upon their credit, the greater the ultimate loss would be.*'

" ' Such is your view of the failures that took place in 1847, speaking generally?'—' That is my view.'

" Your Committee have thought it not irrelevant to place on record these instances, which it was not in the power of their predecessors in 1848 to give, because they furnish an instructive example how readily misfortunes are at the time attributed by the sufferers, and others sympathizing with them, to the operation of statutory enactments, which misfortunes, upon a full review of all the circumstances attending them, it is obvious *that no wisdom of the legislature, no regulation of the currency could have prevented.*

" Your Committee have before them the particulars of thirty houses which failed in 1857. The aggregate liability of these houses is £9,080,000; of this sum the liabilities which other parties ought to provide for amount to £5,215,000, and the estimated assets, £2,317,000. Besides the failures which arose from the suspension of American remittances, another class of failures is disclosed. The nature of these transactions was the system of open credits which were granted; that is, by granting to persons abroad liberty to draw upon the house in England to such extent as had been agreed upon between them; those drafts were then negotiated upon the foreign exchanges, and found their way to England, with the understanding that they were to be provided for at maturity They were principally provided for, not by staple commodities, but by other bills that were sent to take them up.

There was no real basis to the transaction, but the whole affair was a means of raising a temporary command of capital for the convenience of the individuals concerned, merely a bare commission hanging upon it; a banker's commission was all that the houses in England got upon those transactions, with the exception of receiving the consignments probably of goods from certain parties, which brought them a merchant's commission upon them; but they formed a very small amount in comparison with the amount of credits which were granted. One house, at the time of its suspension, was under obligation to the world *to the extent of about* £900,000. *Its capital at the last time of taking stock was under* £10,000. Its business was chiefly the granting of open credits—*i.e.*, the house permitted itself to be drawn upon by foreign houses without any remittance previously or contemporaneously made, but with an engagement that it should be made before the acceptance arrived at maturity. In these cases, the inducement to give the acceptance is a commission varying from $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. The acceptances are rendered available by being discounted, as will appear hereafter, when the affairs of the banks which failed come under our notice.

"The obvious effect of such a system is first, unduly to enhance, and then, whilst it continues, to sustain the price of commodities. In 1857, that fall of prices which, according to Mr. Neave, 'far-seeing people had anticipated,' actually occurred. Tables have been put in by more than one of the witnesses, exhibiting an average fall of 20 or 30 per cent., in many instances much more, upon the comparison of July, 1857, with January, 1858. It needs no argument to prove what effect such a fall must have upon houses which had accepted bills, on the security of produce consigned, *to the extent of one hundred times the amount of their own capital.*

"The witness is asked,—

"'In the case which you are now describing to the Committee, these transactions had gone on to the extent of £900,000. The real guarantee was partly produce and partly bills of exchange; to whatever extent that produce was depreciated, of course the liability of the firm to failure would arise, and the capital of that firm, to meet such depreciation of produce, was about one-hundredth part of the whole of their liabilities?'—'That is so.'

"'Do you consider that case to be a fair illustration of the recent commercial disasters which have occurred?'—'I think it is, though I should mention that in some cases the proportion of capital possessed was larger than that which I have mentioned.'

"The commercial crisis was very little felt in Ireland until the failure of some of the banks in England and Scotland. The trade of Ireland, with the exception of that of Belfast, being little connected with the United States, did not feel directly the effect of the failures there, but when failures began to take place at home there was an internal pressure consequent upon them, which, about the early part of the month of November, manifested itself severely in a demand for gold by depositors and holders of notes, and there was a run on the savings banks. The Bank of Ireland advanced to the banks in Ireland requiring gold to the extent of about £250,000; and they were obliged to draw from the Bank of England from £1,000,000 to £1,200,000 besides. Belfast has a large trade with the United States, as well as a constant intercourse with Scotland, but there was no alarm until the time of the Scotch bank failures. *There was then, what had never been known before in Belfast since the institution of the joint-stock banks, a considerable run for gold in exchange for their notes.* But the amount of gold which they

held under the Act of 1845 was a source of strength. The banks appear to be well constituted, and no serious results ensued.

"Your Committee have examined Mr. Joshua Dixon, who in August, 1857, first assumed the post of managing director of the Borough Bank; Mr. Fleming, who has been, since July, 1857, assistant manager, manager or liquidator of the Western Bank of Scotland; and Mr. Kirkman Hodgson, a member of the House, and director of the Bank of England, who, being well acquainted with the trade of Newcastle, went to that town in November, for the purpose of ascertaining how far it was right that the Bank of England should give assistance to the Northumberland Bank.

"The state of these three banks at the time of their failure may be collected from the following summary, viz.:

"Mr. Joshua Dixon, for many years resident in the United States, and once a private banker at New Orleans, settled at Liverpool in 1852, and soon afterwards became a shareholder and director of the Borough Bank. This institution was originally a private bank, that of Messrs. Hope, in whose hands it was prosperous, and they retired as wealthy men about the year 1834. In 1847, however, the Borough Bank was under the necessity of obtaining assistance from the Bank of England. When Mr. Dixon became connected with it, he found that the board, which consisted of twelve directors, chose two managing directors and a chairman. The entire management of the bank was amongst the managing directors and the manager. On the 1st August, 1857, Mr. Dixon himself became a managing director, and thus describes the state in which he found the affairs of the bank:—Its position, he says, was that of its available means being very much reduced, being far smaller than was at all consistent with the sound

and safe position of the bank. Speaking irrespectively of any general commercial pressure, he tells your Committee that, from the 1st of August, when his attendance at the bank was daily, as he became more and more thoroughly acquainted with the position of individual accounts, and with the whole circumstances of the bank in proportion as time lapsed, he became more and more convinced that the position of the bank was one of exceeding danger. When the commercial crisis showed itself, of course the danger to the Borough Bank became imminent, and they made an application to the Bank of England for assistance, some time between the 20th and the 23rd of October. The position, in general terms, of the bank was, that its assets were all locked up and unavailable, and that some £600,000 or £700,000 of its assets or claims on its debtors, which had until a short time previously been considered good, could not be relied upon, even for ultimate realization. About £3,500,000 bills were at that time in London under the indorsement of the Borough Bank of Liverpool; of which from £700,000 to £1,000,000 *had no negotiable validity at all*, except the indorsement of the Borough Bank of Liverpool.

"Pending the negotiations with the Bank of England, there appeared in the 'Times,' of October 27th, an article stating that arrangements had been made for giving assistance to the Borough Bank; in consequence of which a run took place, and the doors of the bank were closed. That run lasted only two or three hours, but the cash at their command was reduced to between £15,000 and £20,000; while their liabilities on deposit were in all £1,200,000, of which £800,000 were at call, and the remainder at periods varying from two to six months. The dividend of this bank, which had previously been seven per cent., had, at the last meeting, held on 10th July, 1857,

been reduced to five; and the sum of £165,000 was, on the face of the report, acknowledged to have been lost. *The total loss*, so far as the witness could estimate it, amounted to £940,000, *being the total capital of the bank.* It is ascribed, not to advances improperly made to favoured persons, but to want of discretion in the management.

"The Western Bank of Scotland was founded in 1832. In 1834 it was already in difficulties, and their correspondents in London dishonoured their bills. They applied to the other banks for assistance, and received it upon certain conditions. In the year 1838 they applied to the Board of Trade for letters patent, which were refused. At this time the Bank of Scotland and other banks addressed a memorial to Mr. Poulett Thomson, alleging the breach of the conditions referred to.

"In 1847 the Western Bank was again in difficulties, and was assisted by the Bank of England, receiving an advance of £300,000. The then manager, Mr. Donald Smith, appears to have taken alarm from the occurrences of 1847; and in 1852, when he retired, the bank, though not in a satisfactory position, stood better than it had stood before since 1847. When it failed on 9th November, 1857, it appeared that the four insolvent houses of Macdonald, Monteith, Wallace, and Pattison, *were indebted to it in the sum of* £1,603,000; *the whole capital of the bank being only* £1,500,000. One of the conditions of the co-partnery was, 'that if it shall at any time appear, on balancing the company's books, that a sum equal to £25 per centum on the advanced capital stock of the company has been lost in prosecution of the business of the company, such loss shall, *ipso facto*, and without the necessity of any further procedure, dissolve and put an end to the company.'

"Mr. Fleming became assistant manager in July, 1857,

and at once examined the affairs. He estimated that even supposing the debts of these four houses (which had not yet become insolvent) were assumed to be good, there appeared on the face of the books as good assets £573,000 of bad debts; and deducting the rest and guarantee fund, which then amounted to £246,000, there remained an apparent deficiency or encroachment on the capital of the bank of £327,000. This of itself nearly approached the limit which dissolved the partnership and put an end to the existence of the board; and of this state of affairs Mr. Fleming believes that up to that time the directors were in a state of almost entire ignorance. In 1853, previously to the first meeting of the shareholders after Mr. Smith's departure, an examination was instituted preparatory to the annual balance. From a confidential paper, having marks upon it in the handwriting of the then manager, it appears that a sum of £260,000 was reported to him as irrecoverable on one branch of the assets, *which nevertheless appeared as good assets in the published balance-sheet.* The modes in which this kind of disguise can be accomplished will perhaps be best understood by stating the manner in which a debt called 'Scarth's debt,' comprised in a different branch of the assets, was disposed of. That debt amounted to £120,000, and it ought to have appeared among the protested bills. It was, however, divided into four or five open credit accounts, bearing the names of the acceptors of Scarth's bills. These accounts were debited with the amount of their respective acceptances, and insurances were effected on the lives of the debtors to the extent of £75,000. On these insurances £33,000 have since been paid as premiums by the bank itself. These all now stand as assets in the books. Though this substitution took place in 1848, yet down to the time when Mr. Fleming's examina-

tions began to bring to light the true state of affairs, the six directors appear to have regarded these sums as part of the available property of the shareholders. This being the actual state of the accounts, the dividend was raised in 1854 from 7 to 8 per cent., and in 1856 to 9 per cent. *Nine per cent. was the dividend declared in June*, 1857, at which date a very slight acquaintance with the books must have led to the strongest suspicion, not to say to the clear conviction, *that for some time a considerable portion of the capital had been lost.*

"This bank had 101 branches throughout Scotland. It had connections in America, who were allowed to draw upon it for the mere sake of the commission. At home it made advances upon 'indents;' or, in other words, provided the manufacturer with the capital with which yet unmade cloth was thereafter to be produced. Its discounts, which in 1853 were £14,987,000, had been increased in 1857 (till 9th November) to £20,691,000. With what care this business was conducted may appear from the circumstances *that Macdonald's bills were accepted by* 124 *different parties; that only* 37 *had been inquired about, and in the case of* 21 *the reports received from the correspondents of the bank were unsatisfactory, or positively bad.* Yet the credit given to Macdonald continued undiminished. The rediscounts of the bank in London, which in 1852 had been £407,000, rose in 1856 to £5,407,000. The exchanges of notes in Edinburgh have been always against the Western Bank, and for an average of the last six years to an extent of not less than £3,000,000 a year. This circumstance is accounted for by Mr. Fleming chiefly by reference to the nature of the transactions with Macdonald's and other houses in accommodation bills; £988,000 were due to the bank from its own shareholders.

"About the end of October the Northumberland and

Durham Bank applied for assistance to the Bank of England. It was declined, as they could not give any satisfactory explanation of their real position. They applied a second time, urging the great peril in which they were placed by the continued discredit, and by the constant drain of small deposits; they urged also the fear of disturbances and breach of the peace which might ensue if they were to fail, they being so largely connected with collieries and ironworks. Accordingly on Tuesday, 24th November, Mr. Hodgson went down to Newcastle, and told the directors that he had been sent down by the Bank of England to examine into their books, and see whether it was possible to render them such assistance as would enable them to go on; but that the first condition of the bank doing anything was that they should prove themselves solvent. The result was that Mr. Hodgson found the liabilities, as then stated, amounting to £2,600,000, of which there were £1,350,000 of deposits, £1,150,000 accounts current, and they had rediscounted £1,500,000, of which they expected that £100,000 would come back upon them, and for which they would ultimately be liable, making altogether £2,600,000. Their assets were of a very peculiar nature indeed, the early realization of which would be almost impossible. They held about £1,000,000 in securities of different kinds. They held in trade bills, that is to say, small bills on shopkeepers of Newcastle, about £250,000 bills which were probably good in themselves, but which were not available anywhere out of Newcastle; they were not bills which could have been discounted in any other part of the money market. They had in overdrawn accounts £1,664,000, without any specific securities attached to them. Of these £1,664,000, there were £400,000 which one of the directors very candidly confessed must be considered as totally

bad, *and which ought to have been written off long before, but which still remained in the account as good debts.* The capital of the concern was £656,000 nominally, but in reality it was considerably less than that; because in 1847 they had been in trouble, and in order to get out of that trouble they had made a call of £5 or £10 a share, which was not paid upon some of the shares, which shares were forfeited, and taken by them into the stock of their bank, to be reissued should occasion warrant their doing so. The consequence was that the subscribed capital of the bank was about £600,000. This statement at once showed that any attempt to help them, short of taking up the whole concern and liquidating it for them, would be perfectly useless. It was evident that the whole capital was gone; and, looking at the character of the securities, Mr. Hodgson came to the conclusion, not only that the capital was gone, *but that the bank was totally insolvent.* Being very much struck with the extraordinary loss which had taken place in the bank, which, when a private bank, he knew to have been a very flourishing one, he inquired whether there was not some old sore of which nothing had as yet been said. He was told that there was one; there was rather a disinclination to mention what it was, but he felt it his duty to press it, and they told him they had a very large debt with the Derwent Iron Company. He inquired the amount of this debt, and found, much to his astonishment, that it amounted to £750,000, the capital of the bank being £600,000. For that debt there was a kind of security, which consisted of £250,000 of what were called Derwent Iron Company's debentures, which were, however, in reality, *nothing but the promissory notes of the directors,* there being very few persons in this Derwent Iron Company. The bank had also £100,000 mortgage on the plant, and the remaining £400,000 was totally

unsecured. In addition to this original debt then mentioned of £750,000, there is now another charge upon it of £197,000, resulting from bills which have not been paid, and which, in order that the Derwent Iron Company might get them discounted, the bank had endorsed or otherwise guaranteed. These have now come back, so that the total liability for which the Derwent Iron Company is indebted to the bank is about £947,000; very nearly £1,000,000. The Derwent Iron Company appears to have been, almost from the time of the conversion of the bank into a joint-stock bank, very intimately connected with it. Mr. Jonathan Richardson, who was the moving spring of the whole bank, in fact the person who managed everything, was, *though not a partner in the Derwent Iron Company, very largely interested in it* as holding the royalties upon the minerals which they worked. It appears that the concern has been worked extremely badly; that it has never made any profits at all, even in the very finest years, for the ironmasters, *and it has gone on absorbing the money of the bank unchecked by the directors.*

"Mr. Hodgson says that £1,000,000 of securities were taken of the most extraordinary nature for any bank to hold that he ever saw; that £1,000,000 of securities, which was the only tangible asset which they had against the £2,600,000 of liabilities, consisted of £350,000 of the Derwent Iron Company's obligations, £250,000 being debentures, and £100,000 mortgage on the plant. They had besides these, £100,000 on a building speculation at Elswick, near Newcastle, which however was not a primary mortgage, there being a mortgage of £20,000 on that land belonging to Mr. Hodgson Hinde. They had also another £100,000 on other building land and houses in the neighbourhood of Newcastle. They had about £350,000 in securities of works and manufactures of different sorts,

and they had about £50,000 in navigation bonds guaranteed by the railway, but which railway was the only security to which they could look in any given time to realize any sum of money; that made about £1,000,000 altogether. The other securities were absolutely unmarketable. This bank had derived assistance from the Bank of England in the former crisis, that of 1847. Almost exactly the same circumstances arose then which arose in 1857, and almost from the same cause. The bank, however, applied at that time to the agent of the Bank of England at Newcastle, and he, on his own responsibility, made them a very large advance, which carried them through; he taking at the same time a very considerable security from them in various mortgages, pretty much of the character which has been above mentioned, but better in quality, although not any more banking securities than these; between £700,000 and £800,000 altogether.

" 'The whole of the advance made in 1847 was repaid to the Bank of England, was it not?'—'Yes. With regard to the late occasion I represented at the same time that, though the bank could not be assisted, yet the fact of its failing, which it would do the moment it was known that the Bank of England would not help it, would be at that moment a very serious thing for the district, because it was so much connected with the collieries and ironworks that it paid every week, either for persons who had balances with it, or for persons whose bills it discounted, and thus gave them the money, about £35,000, on which the wages of 30,000 people were dependent; and as their pay-day was on the Friday, and the bank would stop on the Thursday, it was very desirable that something should be done to prevent the confusion which would arise if there was no preparation made for that conjuncture. In consequence of that the Bank of England requested me to go

down again that night, with full powers to make arrangements with all persons who might have any tangible and good security, though, perhaps, not perfectly regular security, so as to provide them with the means of making their pays on the Friday. I went down accordingly, and arranged with almost everybody, or with everybody, I may say, to make such advances as would enable them to meet the pays for that week and for the next, should it be necessary. I also advised the manager of the savings bank to open his bank on Saturday for payments, though it was not the usual day, and authorized him to draw upon the Bank of England for any sum of money which he might require for the purpose of making any payment; but owing to the fact of the Bank of England thus enabling the proprietors, the coal mines, and the works, to make their weekly payments, there was no run whatever upon the savings bank, and everything passed off quite quietly.'

"'Was there any limit to the authority which you had from the Bank of England to give assistance in Newcastle?'—'No, there was no limit, it was left to my discretion to do what might be necessary. We knew very well that it could not amount to a sum, under any circumstances, of much more than from £50,000 to £70,000.'

"'Are there any other particulars connected with the Newcastle Bank which you are able to lay before the committee?'—'I will, if the committee wish, give them the actual result of the accounts of the bank when it was finally wound up in January this year, as compared with those in November, 1857: it will show a little difference. In November, 1857, the liabilities of the bank were £2,600,000; these consisted of deposits, £1,350,000; accounts current, £1,150,000; and estimated liabilities on rediscounts, £100,000. In January, when the bank was

positively wound up and the thing ascertained, it appeared that there were of deposits £1,256,000, in accounts current, £766,000, and in liabilities on rediscounts, £231,000. The only great difference was in the accounts current, which were diminished about £400,000. This was principally, I believe, from the fact that many persons who had accounts current had deposit accounts also; they kept two accounts, one of which had a balance in its favour, and the other was overdrawn; therefore, one account being set against the other, it diminished it by so much, and at the same time diminished the amount of overdrawn accounts; the assets which were estimated in November at £2,500,000 had fallen in January to £2,000,000; and there was one peculiarity, which was, that while the debt of the Derwent Iron Company was taken as an asset in November at £750,000, in January it was taken as an asset at £947,000, and that it is an asset of a very doubtful nature; *the position of the bank is much worse in reality than is shown by the statement of the figures.*'

"This disclosure was the result of an examination which lasted about two hours; *yet the bank had declared, at the last half-yearly meeting, a dividend of seven per cent., making to the shareholders a statement the substance of which showed a very prosperous state of things.* Mr. Hodgson mentions that he remarked on the fact of their having declared a dividend in June, when it was admitted that half the capital was lost, and he asked how they could have done so; it was stated, in reply, that there were so many persons who depended entirely for their livelihood on the dividends received, that they really could not bear to face them without paying any dividend.

"Each of these three banks had been in peril in 1847, and though by the assistance of the Bank of England they were enabled to surmount it, they fell on the next occasion

of severe commercial pressure, under circumstances still more injurious both to their own proprietors and to the public. Two bill-broking houses in London suspended payment in 1847, both afterwards resumed business. In 1857 both suspended again. The liabilities of one house in 1847 were, in round numbers, £2,683,000, with a capital of £180,000; the liabilities of the same house in 1857 were £5,300,000, the capital much smaller, probably not more than one-fourth of what it was in 1847. The liabilities of the other firm were between £3,000,000 and £4,000,000 at each period of stoppage, with a capital not exceeding £45,000.

"These five houses contributed more than any others to the commercial disaster and discredit of 1857. It is impossible for your committee to attribute the failure of such establishments to any other cause than *to their own inherent unsoundness, the natural, the inevitable result of their own misconduct.*

"Thus we have traced a system under which extensive fictitious credits have been created by means of accommodation bills and open credits, great facilities for which have been afforded by the practice of joint-stock country banks discounting such bills, and rediscounting them with the bill brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise. The rediscounter relies on the belief that if the bank suspend and the bills are not met at maturity, he will obtain from the Bank of England such immediate assistance as will save him from the consequences. Thus, Mr. Dixon states, 'In incidental conversation about the whole affair, one of the bill brokers made the remark that if it had not been for Sir Robert Peel's Act the Borough Bank need not have suspended. In reply to that I said, that whatever might be the merits of Sir Robert

Peel's Act, for my own part, I would not have been willing to lift a finger to assist the Borough Bank through its difficulties, if the so doing had involved the continuance of such a wretched system of business as had been practised; and I said, if I had only known half as much of the proceedings of the Borough Bank while I was a director (referring to the time previous to the 1st of August, when I became a managing director) as you must have known, by seeing a great many of the bills of the Borough Bank discounted, you would never have caught me being a shareholder;' the rejoinder to which was, 'Nor would you have caught me being a shareholder; it was very well for me to discount the bills, but I would not have been a shareholder either.'"

The foregoing disclosures are as beacon lights to warn against the dangers of the rocks and shoals and quicksands which beset the track of modern adventurers in search of the Golden Fleece. Disclosures of the kind could be multiplied almost *ad infinitum*. But, once the gold-fever sets in, it rages until the moment of the crisis. And what follows then? We cannot answer the query better than by quoting from her "History of the Thirty Years' Peace," Miss Martineau's description of the consequences resulting from the terrible panic of 1825:—

"There are many now living," wrote that talented lady in 1846, "who remember that year with bitter pain. They saw parents grow white-haired in a week's time; lovers parted on the eve of marriage; light-hearted girls sent forth from home as governesses or sempstresses; governesses, too old for new situations, going actually into the workhouse; rural gentry quitting their lands; and whole families relinquishing every prospect in life, and standing as bare under the storm as Lear and his strange comrades upon the heath!"

Must these vicissitudes continue? A recent writer on the subject [1] remarks—

"If crises must work their will when they arise, how are they to be prevented in the future? The problem is difficult, yet not absolutely insoluble. The difficulty lies more in moral than in physical or trade forces: it is the want of knowledge, and still more of observation and reflection, which generates real crises. Crisis is not merely another word for poverty. If the diminution of wealth is met by wise curtailment of speculation even in its legitimate form, property may dwindle, but the convulsions peculiar to a crisis will not be developed. Then, again, if farmers never drained except with the surplus of a good harvest, if manufacturers never built new mills except out of realized profits, if goods were not produced except under a very strong presumption that they were in demand, if bankers never lent except upon solid and realizable security, no crisis would ever desolate the world. Traders and bankers, like sailors, have a difficult task in predicting the coming weather; and, like sailors, they must try to acquire the sailor's eye—the faculty of discerning small signs and judging their significance accordingly. The vital point is that they should notice the right things, the causes which are at work in brewing mischief. They must be studied at their origin. The difference between the intelligent merchant or banker, and the unintelligent, lies in the ability to understand the forces which make deposits and their withdrawals great or small—in the skill *rerum cognoscere causas*. This is a wide study beyond doubt. It is easier, no doubt, to float down the stream as it runs in the present, to make profits and to let to-morrow take its chance, or to set up some empirical rule, some high-sounding jargon, without stop-

[1] Mr. Bonamy Price, in No. CVI. of the "North British Review."

ping to inquire whether it possesses the reality as well as the look of knowledge. But if men choose to let their actions be guided by such methods, they must look out for crises—sharp, sudden, and overwhelming crises. The responsibility weighs heaviest upon banks, not upon the Bank of England only, as some proclaim, but upon all bankers collectively. Everything depends on the sagacity and prudence they bring to bear on the loans they grant. The periodical recurrence of these convulsions seems to indicate that prudence lasts a year or two after disaster has punished folly; care and caution are developed in all commercial classes; and the energy and industry of the people restore the losses incurred. Prosperity follows; prudence gradually disappears; then heedlessness encourages every kind of enterprise; and again the thunder and lightning avenge forgotten virtue."

SECTION XXXVII.

THE CRISES OF 1875 AND 1878.

THE quotation with which we closed the preceding section constitutes a heavy, and we fear too true, indictment against a certain class of bankers, for it is beyond doubt that to a large extent they are responsible for the panics which recur from time to time.

Constituted as human nature and human society at present are, the speculative mania in times of ease is sure to fan itself into new life, like the phœnix, and seize upon the minds of those, who, so long as their own selfish interests are served, are utterly regardless of the general good. And it is at this juncture that the prudent banker ought to step in and put difficulties in the way of the attainment of the objects of such individuals. Were this done more often, were fewer advances made on dead and unmarketable securities, and for long periods, and were consequently a banker's resources more readily available in times of pressure, we should have fewer panics, and those of a much less virulent nature. It is the facile acceptance in times of ease by the easy-going, unobservant, unreflective banker, of the illegitimate proposals of speculative individuals of all classes that paves the way in the long run for the inevitable reaction and ultimate disaster.

The experience of the past shows that the lessons derived from the various panics which from time to time have visited us pass away from the minds of most men

like a vague dream. The writer whom we have just referred to, writing in 1866, truly says that prudence seems only to last for a year or two after disaster, during which time care and energy gradually restore the losses incurred; then prosperity again follows; prudence disappears and recklessness takes its place; and once more the cycle is completed by another panic.

That this has been so in the past is a matter of history, and that it will be so in the future is only too likely. The most we can hope for, we fear, is that the extreme virulence of panics in the future may be toned down by those who have the dispensation of credit in their hands being wise in time and putting the curb on all excessive speculation before it has gone too far.

There is good reason to hope that the lessons of the past have not been altogether fruitless, for, from whatever cause arising, it is certain that the crises which we are about to consider in this section, black though they for a time looked, never culminated into absolute panic.

The crises of 1875 and 1878 had their origin in very different causes from those of 1857 and 1866. In those years speculation had been carried on to a very dangerous extent, and as a consequence money was scarce, and the reserve of the Bank of England was at a very low ebb. But at the time of the crises of 1875 and 1878 money was abundant, and the Bank of England was in a position to supply all demands. The average reserve in the latter years was nearly double that of 1857 and 1866.

After the panic of 1866 had spent itself, and when confidence began to be restored, the value of money declined by easy stages from 10 per cent. in the middle of May, till the end of December, when the bank rate stood at $3\frac{1}{2}$ per cent. From this time onward for several years there was a period of a dead level of low rates and cheap

money. From the beginning of 1867 to the middle of 1870 the bank rate, except during April and May, 1869, never reached more than $3\frac{1}{2}$ per cent.

But about the midsummer of 1870 the disposition on the part of France to pick a quarrel with Germany began to be much noticed and commented upon, and the market, in order to be prepared for any eventuality, soon necessitated a rise in the bank rate. Events on the continent moved fast; and almost before men had time to comprehend the grounds of the dispute, France declared war on the 23rd of July. From the preceding November the bank rate had stood at 3 per cent. until the 21st of July, when it was raised to $3\frac{1}{2}$. From this point it was moved rapidly up to 4, 5, and 6 per cent., in consequence of the pulls on the reserve by those who wanted to make themselves safe in view of the seriousness of the struggle about to be engaged in, and of the possibility of a general European war. But when on reflection it was seen that England was not likely to become embroiled; and when money began to pour into this country for safe keeping from almost every European centre, the bank rate just as rapidly fell away from 6 per cent. on the 4th of August, by easy gradations to $2\frac{1}{2}$ on the 29th of September, at which rate it remained till the following March.

Meanwhile, by a series of bloody victories the German armies had without a check completely conquered France. The Emperor, and the entire army which he nominally commanded, were captured at the battle of Sedan in the beginning of September. By the end of that month Strasburg was taken, and Paris was entirely invested. Metz capitulated at the end of October; and thereafter the chief attention of the German staff was concentrated upon the siege of Paris. The siege dragged slowly on until February, 1871, when an armistice was agreed upon,

out of which sprung at the end of that month a definitive peace. Among other terms which the Germans imposed was one that the French should pay an indemnity of two hundred millions of pounds, and that during its partial payment part of the German soldiery should occupy certain provinces of France. This procedure kept the wound open, and it was felt that so long as the Germans remained in the country any accident might lead to the renewal of hostilities. Hence foreign money remained in this country, and so kept rates low, although business was brisk enough.

No sooner did the terms of peace become known in Paris, than the Communists of Belleville and Montmartre, furious with the Government for agreeing to such conditions, rose in insurrection against it. No one could tell the possibilities that lay in the future. But every one felt that if the Government troops were not strong enough to put down the rising, the Germans, who were quartered in the towns around Paris, would have to return and occupy the city; and this contingency was looked upon with the greatest apprehension, in view of the heated state of the French mind at the time. Hence foreign money still remained in this country, keeping rates low.

From the beginning till the end of 1871 the bank rate never rose over 3 per cent., except for a week or two in the autumn, when it reached 4 and 5. The years 1872-73, were characterized by higher rates—the average being about 4½ for 1872, and 4¾ for 1873, against about 2⅞ for the previous year, and nearly 3½ for 1870. This arose chiefly from the great drain of gold from this country in connection with the French war indemnity; and in addition, from the American panic in the autumn of 1873.

It will be remembered that this indemnity was about £200,000,000, and that its payment, according to the original proposition, was to extend over four years, during

which time, and in proportion to the amount unpaid, the Germans were to occupy certain parts of the country.

But M. Thiers, with the view of freeing every inch of the country at the earliest possible moment from foreign occupation, and with that superhuman energy and ability which he brought to bear on everything he took in hand, took steps to pay the indemnity forthwith. He issued a 5 per cent. loan of £80,000,000 in the summer of 1871, which in a few days was more than twice subscribed for in France alone. Out of this, before the end of the year, he paid Germany nearly fifty millions, of which over thirty millions consisted of bills on London.

By the imposition of fresh taxes, and in other ways, he paid a further instalment of twenty-five millions in the beginning of 1872.

In the summer of that year he issued a loan of £140,000,000, which turned out to be a most astonishing success. In France alone it was subscribed for five times over, while the foreign applications were for nearly seven times the amount. The total amount subscribed was £1,640,000,000.

Out of this loan France paid a further instalment of twenty millions, thereby making about 100 millions paid; and leaving about the same amount to be paid, in instalments of 20 millions due 1st February, 1873; 40 millions due 1st March, 1874; and 40 millions due 1st March, 1875. But M. Thiers anticipated all these instalments, and by his unprecedented energy and ability he finally wiped off the whole of this balance of the indemnity by monthly payments extending from about the end of 1872 till the autumn of 1873.

The bulk of the indemnity having thus been paid in the years 1872-3, the chief monetary feature of these years was, as we have already said, the drain of gold from this

country. It was agreed that some of the first instalments of the indemnity should be paid in hard cash, and that the remainder should be paid in bills. Gold therefore in 1871 went direct from France, while in 1872-73 it chiefly went from England. The course was this :—

English exchange being much more plentiful on the Paris market than that of any other country, the French Government bought as much of it as they possibly could, and remitted it to Berlin. The bills payable in London, so bought, were next sent by the German Government to their agents in this country—The London Joint-Stock Bank—for collection and credit of account at maturity. And then, from time to time and under instructions, the London Joint-Stock Bank bought gold of the Bank of England or in the open market, and shipped it to the German Government, by whom it was used up for the purposes of their new coinage.

The drain of gold from this cause had been so persistent and pronounced during the summer of 1872, that between June 20th and November 9th, the bank had been obliged to raise their rate from 3 to 7 per cent.; and at the last-named date, when the discount rate was 7, the bank were charging 9 per cent. for advances. Similarly, in the autumn of 1873, the discount rate was raised from 3 per cent. on the 21st of August to 9 per cent. on the 7th November; while on the latter date the bank were charging 12 per cent. for advances.

It can easily be imagined that, notwithstanding occasional tightnesses in the money market, this period was one of great prosperity in England. When the war broke out in 1870 people had not long recovered from the prostration following the panic of 1866. They *had* recovered, however, and had begun to breathe freely again, and to operate with confidence. They were ripe to take advantage

of any fortuitous event which might happen. And the event which did happen, unfortunately, was that unparalleled war, which, while benefiting this country, desolated France and Germany. As has been said the immediate effect of the war was to induce the wealthy classes on the continent to send their money to this country for safe-custody, or for investment, or for other employment. This made money abundant, raised the prices of securities, and generally gave a great impetus to trade. Traders, from the superabundance of money, were able to get it at a cheap rate, and to go into operations into which otherwise they could not go. Manufacturers also, having before their eyes the necessities of the contending armies, kept their hands going full time. The cloth trade, the leather trade, the chemical trade—every trade, in short, bearing directly or indirectly upon the equipment of soldiers in the field, was active. The coal and iron trades also began to look up. Indeed, deep seemed to call unto deep; and all round, almost without exception, every industry in this country was in a state of the greatest prosperity.

This condition of affairs lasted, generally speaking, for about three years, from the beginning of 1870 till the end of 1872. The height of this prosperity was reached during 1872 and the beginning of 1873 by the enormous prices of coal and iron. But this prosperity was by no means altogether an unmixed blessing. With many men money that comes easily goes easily. Merchants, manufacturers, and traders having a surplusage of money in their hands speculated wildly, and laid the foundation of that reaction which was inevitable. Workmen, especially the miners, instead of laying by some of their hard-earned money against a rainy day, spent their wages, which had been unprecedentedly high, in all kinds of sensual luxuries.

And what had been taking place here had been taking

place also abroad. America, like England, being outside the zone of conflict, benefited also by the war, and her prosperity also laid the seeds of future reaction. Germany herself, though enriched to an unprecedented degree by the war indemnity, also began to show signs of poverty. It might almost be said that the indemnity became a curse in her hands. She was like an ill-conditioned youth who suddenly finds himself the possessor of a large fortune. The careful protection of suddenly acquired wealth had formed no part of her education. "Light come, light go," is a maxim which is true in the case of nearly every human being, and the careful German was no exception to the rule.

Germany at this time passed through an experience such as England did in the years 1823-25. In the former year public companies were formed by hundreds, but no sooner had they been formed, and the promoters feathered their own nests, than the great bulk of them collapsed; and the larger number of those that remained were obliged to give way before the panic of 1825. Germany, as has been said, passed through the same experience. The immense amount of money which flowed into the country from France in 1871-3 gave birth to a great number of public companies, some good, some bad, some indifferent. The natural result followed. Companies formed at a period when money was plentiful did well enough for a time, and so long as money could easily be got to bolster them up; but so soon as money became scarce the inherent unsoundness of these concerns brought them to a standstill. As all classes of society were involved in these concerns, and as no more money was forthcoming, a crisis followed.

Austria being a neighbour of Germany, and being mixed up socially, financially, and otherwise, with the latter, the crisis extended to the former. These crises of course

naturally reflected upon England. Gold was withdrawn from the bank, and the rate was moved up from 4½ on the 7th of May to 5, 6, and 7 per cent.—the last-named on the 4th of June. This German crisis may be said to have been the first note of warning to us to put our house in order, and prepare for the inevitable reaction after a period of prosperity. The second took place later in the same year of 1873, and came from America in the autumn.

To understand thoroughly the causes of the American panic of this period, it is necessary to go back for some years and consider the system which prevailed there in the construction of railways.

After the Civil War came to an end, the Americans, with that wonderful energy for which they are remarkable, immediately turned their attention towards repairing the waste which the war had made. As a chief means to this end they developed their railway system; but this, for some years, they kept within reasonable bounds, and only constructed where construction was expedient. After a time, however, certain individuals, having got their hand in, and having as it were warmed to the work, saw their opportunity and embraced it. These individuals may be called professional company-mongers. They, for the sake of commissions, and the hundred and one pecuniary advantages derivable from such undertakings, promoted railways in districts which could not possibly support them. This was particularly the case in the building of what were called the "land grant" roads, in respect of which they could go to the public in justification of their enterprise, and feasibly plead that if those roads were not undertaken the land grant privileges would soon lapse.

Both before, and for some time after the war, railway enterprise was kept within due bounds, and was by no means in excess of the legitimate requirements of the

country. During the years 1850-59, the average annual increase of new railways was 2159 miles; and during the years 1860-7 1311 miles. But for some years after the last-named period the professional constructors began to come to the front, as we have said, and the result was an enormous and unnecessary annual increase of railway mileage.

The following table will show the extent of the mania which was prevalent during those years for the construction of new lines:—

During	1868	there were built	2979 miles
„	1869	„	4953 „
„	1870	„	5690 „
„	1871	„	7670 „
„	1872	„	6167 „
„	1873	„	3948 „
„	1874	„	1940 „

It will be inferred from what has been said of the inutility of the bulk of this fresh mileage that the public were not so foolish as to find the money for the whole of its construction. Really the construction was effected in great part without any real solid capital at all. The promoters of the railways financed them in some such way as this:—Having possessed themselves of the necessary land, or land rights, they met together and formed what was called a "Pool." Thereafter the members of the pool, or certain members in turn, formed themselves into the railway company, the capital stock of which they *subscribed*, but for which they paid no cash. Then they, the members of the pool, being also the directors of the railway, generally sold to themselves the 6 or 7 per cent. bonds of the company at, say, 75 per cent. These bonds they then resold to the loan contractors who placed them with the

public. So far so good; but in addition to allotting to themselves the bonds of the company they also allotted to themselves as a kind of bonus the fully paid up ordinary stock of the company, for which they paid nothing.

It will be seen therefore that a company with a nominal capital of 20 million dollars, consisting of half of ordinary stock and half of first mortgage bonds, on which dividends were expected to be earned and paid, might only receive in actual capital about $7\frac{1}{2}$ million dollars, a large portion perhaps of which had already gone to pay for concessions, or land, or preliminaries, and leaving but a small portion wherewith to carry on the actual construction of the road. When therefore the actual capital had been all expended, which was very soon, recourse had to be had to financing to raise fresh money wherewith to carry on the works. This was accomplished by the companies pawning the lower classes of bonds with the financial houses—some of them of very high class standing—who raised the wind in the following manner. They either drew their own promissory notes, payable to their own order, at six months date, which notes were bought and sold by the note brokers at varying rates of interest and commission; or, they drew bills at sixty days sight on their London correspondents and handed them to the railway companies, whose only care was to sell the bills in the market to the best advantage.

Whether the advances were made in the one form or the other, the result was the same in both cases. There being no funds to meet them as they fell due, they were renewed again and again, and were perpetually hawked about the streets, and drawing constant attention to a very reprehensible practice. At last these promissory note and bill operations got so large and unwieldy, that they began to be difficult to manage—the holders of the bills began

to feel alarmed—credit gave way—the railway works came to a standstill for want of money—and the companies to which we have referred went one and all into liquidation.

This sudden collapse of railway construction (it will be seen that in 1874 only 1940 miles were built against an average of the previous five years of nearly 6000 miles) intensified tenfold the collapse of the credit out of which it arose. The iron trade, which had been exceptionally prosperous in consequence of the enormous demand for railway material, was hurt; the provision trade, which had been equally prosperous from the requirements of the large number of labourers engaged on the works, was hurt; indeed, every interest connected directly or indirectly with railway undertakings received a blow against which it could not stand. In short, self-preservation became the order of the day all round, and in the process many had to go to the wall.

The first decided indication of the impending panic was the failure of two trust companies in New York and Brooklyn. The failures in themselves were unimportant, but they were naturally looked upon as the harbingers of something more serious. The state of mind begotten of such a strained condition of public credit was in itself calculated to precipitate any impending disaster, and it was felt that any additional circumstance, even of otherwise trifling importance, would bring the fabric of American credit down like a house of cards.

The requisite circumstance occurred about ten days later in the failure on the 18th September of Jay Cooke and Co. This failure was of the first importance. The firm were agents of the American Government, and formed part of the powerful syndicate who took up and placed in the hands of the public the five per cent. funded bonds of the Government. Hence they were looked upon as something

more than an ordinary firm, and to their failure was consequently attached a greater degree of importance. The usual result followed. Runs took place on the National and other banks of Washington, Philadelphia, and New York. The Washington and Philadelphia banks stood firm, and so did those of New York until Saturday, the 20th, when five banks and trust companies failed. At this point it was hoped the worst was over, but after a few days' lull the panic revived and spread, and numerous other failures took place, both in the West and South. Difficulty was experienced in selling exchange. Securities had to be realized, and consequently prices fell. Huge 'Bear" accounts were opened, which still further depressed prices.

All this, naturally, considering the extent of the trade between this country and America, produced a considerable sensation upon trade circles here. The American exchange fell below gold point, and gold had to be shipped from this side. The bulk of the gold went between the 24th of September and the 15th of October, during which period the Bank reserve had decreased nearly five millions and a half. To protect the gold the Bank of England raised its rate, which had been standing at 3 per cent. since the 21st of August, to 4, 5, 6, 7, 8, and 9 per. cent. between the 25th of September and the 7th of November. And contemporaneously with the three last-named rates, the Bank charged for advances 8, 10, and 12 per cent. These rates had at last the desired effect, for not only did they stop the further export of gold to America, but they also attracted gold from the Continent, Australia, and India, and the bullion in the Bank account again showed an increase on the 22nd of November.

About the beginning of December the crisis began to pass away. It had been sharp, and the recovery was cor-

respondingly slow. This again told against England, as America is our best customer, and she was in no condition to buy largely from us.

Hence the year 1874 was marked by business of a quiet, steady-going description, out of which little profit was made in any branch. It cannot be said there was any actual depression. The smallness of the volume of business arose chiefly in the reaction from the former period of prosperity, and from our large customer, America, not being in a position to buy from us as much as usual. Still, if there was little business doing, it was matter for thankfulness that there were few failures in 1874, and consequently little anxiety amongst the commercial classes. With the exception of a 5 and 6 per cent. rate on Nov. 16 and 30, caused by the usual autumnal drain of gold, aggravated by an unusual flow to Germany in connection with their new gold coinage operations, the Bank rate during 1874 was never higher than 4 per cent.

At the beginning of 1875 things looked better all round. The 6 per cent. rate during the closing month of 1874 had the effect of attracting gold from the Continent and elsewhere, and replenishing the Bank reserve. Money became plentiful and remained so; and it was fortunate that it did, for the comparatively fair outlook with which the year opened soon gave place to one of cloud and storm.

Business had for long been bad in South America, and losses there had been numerous and large. The knowledge of this fact caused all the London firms engaged in the South American trade, who were not of the first water, to be looked at somewhat askance, and as the result of this suspicion some heavy failures took place.

The first firm that succumbed was that of I. C. im Thurn and Co., with liabilities to the extent of three millions. This firm was peculiarly open to attacks upon their credit,

for their name was continually before the London bankers and bill brokers in the shape of their acceptances in connection with their numerous financial operations. Then followed, as a matter of course, the difficulties of the Hamilton Windsor Iron Works Company, of Liverpool, and Clark, Punchard, and Co., contractors, of London, both of whom were mixed up with the Buenos Ayres Railway Company, whose drafts upon im Thurn and Co., to the extent of about £400,000, were floating about on the London market. Then, partly from its connection with these concerns, and partly from its inherent unsoundness and mismanagement, the General South American Company stopped payment with liabilities of £400,000, but it is right to add that during last year this company paid a final dividend, making up 20*s.* in the pound. In addition to these there were numerous other failures in the South American trade, which, though of less moment, helped to deepen the anxiety which was felt, and which was fast paving the way for the crisis which occurred a little later on.

Meanwhile, however, things quieted down somewhat, and men were beginning to hope that the worst was past, when new cause for anxiety came from a totally different quarter. About the end of March several failures of more or less importance took place in the iron trade. A very uneasy feeling again became prevalent, and this feeling was intensified during the months of April and May by the conviction that the strikes in the iron districts of South Wales and elsewhere could not but have a very disastrous effect. In addition to this there were persistent rumours that matters were not quite right with some of the India and China houses, and the failure of one or two small firms at this time gave colour to the surmises. Difficulties were looming everywhere indeed. It mattered not to what part

of the world the eye was turned, firms connected with each were freely talked about. And to aggravate matters, a small concern in London, called the City and County Bank, stopped payment on the 18th of May. This failure was of no direct importance to any but those immediately concerned, but it helped to fan the flame of distrust and anxiety which was already burning, and intensified the serious aspect of commercial affairs at the time.

Two or three days later most serious rumours were circulated in the City respecting the position of a very large iron company, but as the day passed over without any disaster, and as it was said they had been tided over their difficulties, the commercial public breathed more freely, and hoped that all immediate danger was over. This hope was, however, doomed to disappointment, for within a week from this time the company pointed at—the Aberdare Iron Company—failed, with liabilities amounting to over a million sterling. This failure was necessarily and quickly succeeded by the stoppage of two kindred concerns, the Plymouth Iron Company and Fothergill, Hankey, and Co., the latter with liabilities of also over a million; and by Sanderson and Co., the bill-brokers, who held a very large amount of the paper of these failed firms, with liabilities of about seven millions; and by a number of smaller firms, who, it transpired, had been simple drawing posts of the Aberdare Company, and who, having nothing to lose, had indulged in the reprehensible practice of accepting the bills of the company, to enable the latter to "raise the wind," for a very small commission. This batch of failures had not so evil an effect as might have been supposed, for the liabilities almost entirely were in the shape of bills of exchange which had found their way, through Sanderson and Co. and others, into the portfolios of banks who were

well able to sustain the loss; and they did not touch the pockets of the general public to any great extent.

The immediate cause of the stoppage of the Aberdare Iron Company was no doubt the strike of the company's men, in conjunction with the strikes of the men connected with the other iron concerns in South Wales. It had, however, been suspected many months before that the company had been raising the wind by accommodation bills, and when the strike occurred, and when consequently no iron was turned out to bring cash into the till, the volume of accommodation bills increased, and the company's credit was in the same ratio decreased, and hence the collapse.

To say nothing of the direct evils of strikes, it may be worth while to record that since the strike in South Wales on this occasion began, there were returned through the Clearing House upwards of two millions of pounds of the acceptances of small traders and others in the provinces; and from this circumstance, among others, observers came to the conclusion that we were on the eve of a large commercial panic, which, happily in a modified form, actually took place a week or two later.

The immediate cause of the panic—or as it may be more correctly described, the crisis—which followed, was the announcement on the afternoon of the 15th of June of the failure of Alexander Collie and Co., East India merchants of Manchester and London, with estimated liabilities to the extent of £3,000,000. Although this firm had long been suspected by some, the announcement came unexpectedly upon the market and revived the fears which for the previous week or two had been slumbering. And matters were made worse when, during the following week, about thirty firms, who had been simply drawing posts of Collie's, and had accepted merely for the sake of a commission,

failed. And the parallel between the Aberdare Company and Collie did not end here, for like Sanderson and Co. in the former case, Young, Borthwick, and Co., bill-brokers, in the latter, were largely "planted" with the accommodation bills, and being unable to take them up out of the hands of the bankers and others with whom they had discounted them, or lodged them as security for loans, they were obliged to suspend also, with liabilities of two millions and a half.

In this case, as in the former, the losses fell chiefly upon the banks, and the general public were not much hurt. While the crisis lasted, it was very sharp and severe, and was, of course, availed of by those unprincipled persons who are always on the outlook during commercial troubles for opportunities of damaging the best conducted and soundest concerns with the view of profiting by their contemporaneous Stock Exchange operations. The consequence was that rumours detrimental to some of the London and Indian banks were freely and industriously circulated, and but for the abundance of money at the time there is no telling to what extent the crisis might have gone.

Fortunately, however, this crisis differed from the panic of 1866, inasmuch as at this time money was superabundant and the Bank rate only $3\frac{1}{2}$, and good firms had no difficulty whatever in obtaining all the accommodation they wanted.

With the smaller firms the case was widely different, for bankers and brokers, in consequence of the perpetual state of fear in which they had been kept by the constantly recurring failures almost since the beginning of the year, distrusted those firms in whom they had not the most perfect faith, and refused them the accommodation which they had been accustomed to. Hence failures amongst the second-rate traders continued for some time, although the

acute stage of the crisis may be said to have been over within a week of Collie's collapse. Thanks, however, to the plethora of money, the somewhat exaggerated fear in the minds of bankers and others gave place to a desire to make what profit they could out of their means, and they soon began to discount again, and thus calmed down to a great extent the fear which had been previously existing.

The competition for bills had the usual effect of still further lowering the rates, and the Bank of England, in order to participate in the discount business at all, were obliged to follow the market and lower their rate on the 8th July to 3 per cent., and still further on the 29th July and 12th August to $2\frac{1}{2}$ and 2 per cent. respectively. The lowering of the Bank rate was only a sign of the superabundance of money, and after all it did not help them to any particular share in such small volume of discount business as was being done.

At this time, also, a large number of foreign States and limited companies were in very bad odour, and investors sold out their holdings in them and placed their money with their bankers to await better times. This also aggravated the position of matters. The result of all these combined causes was that money during August and September was a perfect drug in the market, and at times was quite unlendable. The best rate that could be got by bankers for loans, when they could lend at all, for a month, was 1 per cent. The Clearing House return for the middle week of August was ten millions less than the corresponding week of the previous year, thus showing the stagnation of trade and the consequent valuelessness of money.

During October, however, the usual drain of gold to the country, and Scotland, and America, coupled with a somewhat unusual drain to Germany for coinage purposes, and to other parts of the Continent, and to South America, de-

pleted the stock of that metal by three and a half millions, and to that extent relieved the London market. Hence rates for loans and discounts began to improve, and with this improvement credit began to revive, and a final departure was made from the period of extreme monetary ease and chronic distrust which had been lying so long over the banking, financial, and commercial world.

Such is a short history of the year 1875—a year which may be most accurately described as being marked by a *series* of crises, which, constantly recurring, paralyzed credit from its very beginning, and which reached their climax with the failure of Collie in the month of June, a failure which, coming as the last shock to an already tottering fabric, well-nigh, for a time, swept the very name of "credit" out of existence.

The crisis of 1878 was unlike that of 1875, inasmuch as that of 1875 extended over a prolonged period and had its culminating point at a given time; while that of 1878 was comparatively short, but at the same time sharp and decided.

The intervening years of 1876-7, and the greater part of 1878 passed over without any noteworthy incidents except the political ones of the Russo-Turkish war—which lasted from April, 1877, till March, 1878—and our own troubles in Afghanistan, which came to a head in September, 1878. The troubles on the Continent of course paralyzed trade somewhat and retarded the recovery from the depression which had been existing since 1873. At the same time, considerable progress towards recovery had been made, and the comparative quietude of these years helped materially to increase the chances of a speedy and complete revival. Numerous failures, it is true, took place during this period, but they were chiefly of the weaker class of traders, and arose from contracted business and insufficient

profit, and had no important bearing on the monetary world. As the event proved, however, the expectations formed of a trade revival were once more doomed to disappointment by the catastrophes which took place in the autumn of 1878.

At this period occurred the crisis of 1878, an event which had for its initial cause the failure of the City of Glasgow Bank, on the 2nd of October. Although this failure, when it did take place, was not an *entire* surprise in well-informed circles, it came upon the general public like a thunderbolt, and once more shook the fabric of credit to its very foundations.

We have said that the failure of this bank was not an entire surprise in well-informed quarters, and it may be well to explain, that, particularly in London, it had always been looked upon with some degree of suspicion since its temporary stoppage in 1857. And its credit was in no degree improved when, during the last eight or nine years of its existence, it was suspected that instead of having made a departure from the reckless management which brought it into its former difficulties, it still continued in the same evil courses. The point upon which the bank seemed to lay itself open to remark during that period was the free way in which it used its credit on acceptances. It was noticed that its acceptances under credits issued to Smith, Fleming, and Co., and others, were apparently very much larger than the businesses of these firms would legitimately require; and the soundness of this suspicion has, of course, been since proved by the revelations of the liquidators.

But although there was this suspicion in certain minds thus early, it cannot be said that the bank was in any general discredit till about the beginning of 1878. On the 1st of March, Willis, Percival and Co., bankers in Lombard Street,

having lost a large sum of money by a Greek firm, failed, and this circumstance tended to turn the attention of holders of bills to all financial institutions not of the first water. Chief amongst these was the City of Glasgow Bank, whose acceptances, at this time particularly, were being pressed for discount in large quantities upon the London bill market.

It was significant of the discredit into which the bank had fallen at this time that the bill brokers, in discounting its acceptances, generally asked, and readily obtained, an extra quarter or half per cent. over the market rate for other bank bills. This was the beginning of the inevitable end. The distrust henceforth was never for a moment allayed. It rather grew more and more pronounced until the month of September, when it came to a head. The Indian banks being large holders of the acceptances of the City of Glasgow Bank, which had been given under credits in favour of the corresponding houses in India of Smith, Fleming and Co., London, and others, and having found great difficulty in getting rid of such acceptances on the London market, instructed, it is said, their agents in the East to buy no more of that paper. This precipitated the crisis. The authorities of the bank in Glasgow found their credit entirely gone, with the inevitable consequence of a stoppage staring them in the face.

The first definite rumour of the bank being *in extremis* came from the London Stock Exchange, on the 25th of September. Then followed rumours of all descriptions, embracing some to the effect that false gold returns and false balance-sheets, &c., had for long been systematically issued. These rumours also emanated from the Stock Exchange.

It was regarded at the time as being somewhat singular that certain members of the Stock Exchange should have

such an intimate and exclusive knowledge of the private affairs of the bank, but the subsequent revelations rendered it less remarkable that the difficulties of the concern should have been first allowed to reach such a quarter.

When the rumours referred to first reached the ears of the other Scotch bankers they were greatly discredited, for, although the City Bank had for long been treated as a kind of pariah in Scotland, because of the imprudent business they were suspected of doing, it was believed that the directors were honourable men, and that the balance sheets were true. Assuming that the latter gave a true statement of the affairs of the bank, the other Scotch banks could see in them no corroboration of the rumours, and hence did not credit them. And so well was the secret kept, except in interested quarters, that it was not until the City Bank directors themselves came, during the last day or two of September, to invoke the aid of the other banks, that the latter could bring themselves to believe in the truth of the reports.

Following upon this the other banks deputed Mr. George Auldjo Jamieson, accountant, in Edinburgh, to examine and report upon the state of the finances of the City Bank, with the view of giving that bank the necessary aid should such a course seem to be warranted and afford any hope of helping it through its difficulties. A cursory examination of the books showed Mr. Jamieson that no less a sum than nearly *six millions of pounds* had been lent to *four* firms, and that the bank's affairs were in such a hopeless condition that to advise that aid should be given was quite out of the question. The other banks, therefore, declined to interfere, and accordingly the City of Glasgow Bank stopped payment on Wednesday, the 2nd of October.

In Scotland and London the news was received quietly, coming, as it did, upon minds which had for ten days or

so been prepared for the worst. It was well that the blow did not fall upon minds unprepared for it, for had it come suddenly, like the Collie failure in 1875, a banking panic of unexampled virulence would most probably have been the result. As it was, the short breathing time allowed enabled banks and financial institutions of all kinds to mature such arrangements as should secure themselves in the event of the worst coming. To be forewarned is to be forearmed, and to be forearmed is in a great measure to forestall and minimize the danger. Hence it was that when the blow fell, the public generally received the news with calmness, and forbore to run upon the other banks in any marked degree. It is true that the other two Glasgow banks had to sustain something in the nature of a run, although public distrust never, at any period during the crisis, amounted to more than might have been expected in the circumstances. The association of ideas in the public mind suggested the fact that the only two bank failures in Scotland in recent times, those of the Western Bank and the City Bank, were both Glasgow banks; hence the public, very unreasonably, looked somewhat askance at the two remaining Glasgow banks; but these institutions, as was to be expected from their prudent and able management, had no difficulty in meeting all the demands upon them, and speedily any distrust which may have arisen passed away.

When the City of Glasgow Bank stopped payment, the other Scotch banks immediately took steps to announce that the notes of that bank would be accepted as usual. And in addition to this they also speedily arranged a plan whereby immediate relief was given to such depositors of the failed bank as were hampered by the lock-up of their money by granting them advances on the security of their deposits. And no doubt it was due to such action that a

panic, which might well in the circumstances have been considered inevitable in Scotland, was averted.

Directly the directors determined to stop payment they gave instructions to a firm of accountants in Glasgow, Messrs. Kerr, Andersons, Muir, and Main, and to a firm of solicitors there, Messrs. McGrigor, Donald, and Co., to prepare a balance sheet of the bank, as on the 1st October, 1878, the day preceding the stoppage, to be submitted to the shareholders on the earliest possible day. This investigation necessarily occupied a considerable time, and it was not until the 19th of the month that the investigators' report was in the hands of the shareholders. Then for the first time the public generally became aware of the appalling nature of the catastrophe, when it was seen that there was a total loss of £6,190,983, and that, to hide this deficiency, the balance sheets had been systematically falsified for years.

In addition to the money loss, the revelations made in the report with respect to the book-keeping, and other matters, were of a most astounding character, and showed mismanagement so gross and criminal as to be almost incredible. Indeed, so gross was the falsification that, immediately on the issue of the investigators' report on the 19th, warrants were issued for the apprehension of the directors and manager on a charge of fraud, and put in force the same evening.

The investigators' report was issued on the 19th of October, and on the 22nd a meeting of the shareholders was held to consider it, when a voluntary liquidation was resolved upon. The liquidators appointed were Mr. William Anderson, one of the investigators; Mr. Jamieson, who made the preliminary investigation on behalf of the other Scotch banks; Mr. John Cameron, formerly secretary of the Clydesdale Bank; and Mr. Jamieson's partner, Mr.

James Haldane, of the firm of Messrs. Lindsay, Jamieson, and Haldane, chartered accountants, Edinburgh.

These gentlemen immediately addressed themselves to the work of their office. The first necessary step was to settle the list of shareholders, which was accomplished by the 7th of the following month.

At the period of the stoppage, according to the original list as settled by the liquidators, there appear to have been 1,819 shareholders of all kinds. Of these, 1,093 held in their own right; 484 as trustees; 100 as joint holders, life-renters, &c.; 108 were representative of stock held by wives, &c.; while the remainder held in some other representative capacity.

It is not to be supposed that so large a body would quietly submit to have their names placed on the list of contributories without a struggle, and efforts were made by many to get rid of their responsibility. Petitions to the Court of Session were presented by 209 persons for rectification of the list of contributories which the liquidators were obliged to resist. In this they were successful in 139 cases, partly successful in 26 cases, and unsuccessful in 44 cases. These petitions were presented chiefly on the ground that the petitioners had been induced to purchase stock on the fraudulent representations of the bank; or that prior to the stoppage the stock held by them had been sold to the bank; or that they had disposed of their holdings before the 22nd of October, when the shareholders passed the formal resolution to go into liquidation, although they made no pretence that they had sold before the date of the actual stoppage on the 2nd of October.

In addition to those cases of petitions for rectification, the liquidators were parties to other 203 cases before the law courts. Eighty-four of these were actions against

the liquidators, 68 of which they resisted successfully, and 8 unsuccessfully, and were partially successful with respect to the remainder. In 25 actions raised by the liquidators, they were successful in 12, unsuccessful in 1, and partially successful in 5, while the others are still pending. The remaining 94 cases to which the liquidators were parties consisted of applications to the Court for sanction of arrangements made by them with certain debtors, creditors, contributories, &c. Amongst these may be mentioned, by way of example, the compromises effected with the trustees of James Morton and Co., Matthew Buchanan and Co., Glen, Walker and Co., Potter, Wilson and Co., J. Innes, Wright and Co., W. Nicol and Co., of Bombay, all large debtors to the bank, whereby their estates were made effectual for the benefit of the bank to the value of nearly a million pounds, and litigation was thus avoided. The liquidators also entered into an agreement with the trustee of Smith, Fleming, and Co.'s estate, whereby, by paying a dividend of 2*s.* 1*d.* per £ on the claims (amounting to about £180,000) of all creditors other than the bank, they secured all the assets, which promise to turn out well.

Among the special actions to which the liquidators were parties may be mentioned that of "Murdoch's Trustees," which was taken as a test case to try the question of the individual liability of trustees; and that of the Caledonian Bank, for the winding-up of which the liquidators petitioned. With regard to Murdoch's trustees, they determined, notwithstanding former clear decisions on the point, to try the question of the personal liability of trustees afresh. The result was that judgment was given by the first division of the Court of Session unanimously in favour of the liquidators on the 20th December, 1878, and the principle of the personal liability of trustees was

thereby affirmed. Against this judgment Murdoch's trustees appealed to the House of Lords, who, on the 7th of April following, dismissed the appeal, and confirmed the judgment of the Court of Session.

The petition for the winding-up of the Caledonian Bank was presented by the liquidators in December, 1878, under these circumstances: the Caledonian Bank having taken £400 stock of the City of Glasgow Bank, as security for an advance, from one of its customers, and having registered the same in its own name, became thereby a shareholder of the City of Glasgow Bank, and responsible for its debts. This fact having become a matter of notoriety, the shareholders of the Caledonian Bank, fearful of the consequences, began to sell their shares, or transfer them into the names of men of straw. The liquidators of the Glasgow Bank thereupon took steps to stop this process by closing the register of the Inverness Bank, which was effected by the petition for the winding-up of the latter, which was the only means then possible for effecting that object. The Caledonian Bank then stopped payment, but subsequently so amended its constitution as to prevent any transfer of shares without the approval of the directors; and having thus effected the chief object of the petition of the liquidators of the Glasgow Bank, the petition was withdrawn on the 28th of June, 1879, and the Caledonian Bank forthwith resumed business.

The first duty of the liquidators, viz., the settlement of the list of shareholders, having been effected, their second step was the call upon these unfortunate individuals for £500 per every £100 of stock held. This call was made on the 13th November, and was payable in two equal instalments on the 23rd of the following month and the 24th of the following February. The object of the liquida-

tors in allowing so long a time for the payment of the second instalment was to enable shareholders to realize their securities without unduly forcing them upon the markets, and so, to a great extent, sacrificing them.

The nominal amount of the first call was about £4,200,000, and by the end of the second official year of the liquidation—22nd October, 1880—it had realized £2,409,066.

The first call necessarily swept away many hundreds of the original shareholders, and made the obligations of the remainder all the more onerous.

By March, 1879, the liquidators were ready to make the second call, having gained considerable experience in the realization of the first, and having been able to form a more accurate judgment as to the capabilities of the remaining contributories. But they deemed it expedient, before making the second call, to await the issue of the appeal to the House of Lords by Murdoch's trustees already alluded to.

On the 7th of April judgment was given in this case against the appellants, as was fully expected; and on the 8th the liquidators made their second call, amounting to £2,250 per cent., payable on the 22nd of the same month. The nominal amount of this call upon the stock held by the then solvent contributories was £7,814,000, and it actually realized by the end of the second year of the liquidation the sum of £3,405,452.

The two calls having thus realized the large sum of £5,814,000, or nearly as much as covered the estimated total loss, no further call was deemed necessary. With this sum, together with the sum of £5,851,657, realized out of the good assets of the bank during the two years, the liquidators were enabled to pay dividends to the creditors as follows, viz.:—

6*s.* 8*d.*	in the £	on 28th February, 1879.
3*s.* 4*d.*	„	20th June, 1879.
3*s.* 4*d.*	„	17th October, 1879.
1*s.* 8*d.*	„	25th February, 1880.
1*s.* 0*d.*	„	23rd March, 1880.
1*s.* 0*d.*	„	9th July, 1880.
17*s.* 0*d.*		

In addition to this the liquidators were enabled towards the end of 1879, by the aid of an advance from the other Scotch banks, to offer payment in full to such of the creditors as chose to forego the interest on the unpaid balance of their claims. This offer was taken advantage of to a very large extent; and it can be said that practically every creditor was paid his 20*s.* in the £ within a year and a quarter of the failure of the bank. The creditors who did not take advantage of this offer were few in number, and their claims were comparatively small in amount.

The all but universal ruin of the shareholders, and the searching character of the calls made by the liquidators, will be evident when it is mentioned that, of the original capital of one million pounds stock, the holders of only £88,722 were left solvent after the payment of the second call. This solvent stock was held by 129 individual shareholders, and by 124 trustees, out of the original number of 1,819 shareholders of all kinds. Of the million of capital, however, £160,313 was held by the bank itself, and by several bankrupt debtors to the bank from whose estates there was not a penny forthcoming to meet the calls. There was thus only £839,687 of stock in the hands of the public; and it will be evident, therefore, that holders of stock to the amount of £750,965 were absolutely ruined.

From the foregoing facts an idea can be formed of the immense labour involved in the liquidation. We have seen that the liquidators were parties to over 400 cases in the law courts, but that must give but a faint idea of their labours, as it is evident they must, in addition, have made arrangements with some 1,500 of the shareholders who failed to pay both the calls, and surrendered their stock. The course the liquidators followed in such cases was to require from the surrendering shareholders a statement of their affairs, with a declaration as to its truth before a justice of the peace. These statements were then carefully examined and tested by the liquidators, and on their bases an arrangement was come to, which arrangement was then submitted to a committee of shareholders for approval, and thereafter to the Court of Session for its sanction.

It may be interesting to note as bearing upon the question of the stability of bank shareholders, that two-thirds of the surrendered stock was exhausted by the first call of £500 per cent.

We have given but a mere outline of the history of this disaster, a disaster which for its magnitude, as well as for the grossness of its surroundings, is unprecedented in the history of banking. In Scotland it was felt to be a national disgrace, but it had the effect of setting forth the national character in some of its best lights. There were few bright spots on the face of the whole wretched event, but such as there were ought in justice to be mentioned.

It ought to be mentioned to the credit of the shareholders, for instance, that at their meeting on the 22nd of October to receive the investigators' report, they did not enter upon unmeasured denunciations of the directors for their cruelty in leading them into such a position. By the day of the meeting the report had been in their hands for

three days, and they had therefore ample time to consider the hopelessness of their position and the enormous deficit they would have to make good. Strong language, therefore, would have been excusable, but instead of resorting to that they one and all faced their difficulties in a calm, manly, courageous manner, and expressed their determination to keep faith with their creditors to their uttermost farthing. How well they kept their pledge is well known; but unfortunately in the result, in many cases, absolute penury was the least evil that befell them, for some, in addition to this, lost their reason, and all that made life worth having, thereby laying an immeasurable load of responsibility upon all those who had a hand, directly or indirectly, in bringing them to such a pass.

It ought also to be mentioned to the credit of the Court of Session and the liquidators, that, animated by the prevailing sentiment, they put their shoulders to the wheel in such earnest as to dispose of the large number of cases already mentioned in a few months, thereby rendering it possible to pay practically all the creditors of the bank in full within a year and a quarter from the date of the stoppage.

It ought further to be mentioned to the credit of the general public, that immediately it was seen how very ruinous the disaster would prove, a subscription was opened for the relief of ruined shareholders, which in a month or two reached the large sum of nearly £400,000, which was almost entirely subscribed in Scotland alone.

We have already said that immediately on the appearance of the investigators' report, on the 19th of October, warrants were issued for the apprehension of the directors and manager, on a charge of fraud. They were accordingly all apprehended on the same Saturday evening, and on the following Monday were brought before the police

court; and a week later, after being further charged with theft, were formally committed for trial; the trial, however, not taking place till the 20th of the following January.

The first head of indictment charged the panels with issuing false and fraudulent balance sheets during the years 1876, 1877, and 1878. The fabrication of the balance sheets was actually commenced in 1873, but the Crown went no further back than 1876, believing that they could found a charge on the balance sheets of that and the two subsequent years of sufficient gravity to obtain a conviction.

The panels were charged with the issue of false balance sheets, inasmuch as in that of 1876 they *understated* the deposits £1,006,000, the acceptances £973,000, the credit accounts, and other advances £2,698,000, and *overstated* the cash in hand £29,000, government stocks, &c., £753,000, profits £125,000, reserve fund £450,000; in that of 1877 they *understated* the deposits £1,151,000, the circulation £76,000, the acceptances £1,330,000, the bills of exchange, credit accounts, and other advances £3,227,000, the cash in hand £30,000, and *overstated* the government stocks, &c., £751,000, profits £129,000, reserve fund £450,000; and in that of 1878 they *understated* the deposits £941,000, the circulation £89,000, the acceptances £1,393,000, the bills of exchange, credit accounts, and other advances £3,520,000, and *overstated* the cash in hand £219,000, the government stocks, &c., £926,000, the profits £125,000, the reserve fund £450,000.

In addition to these specific charges they were also charged under this head of the indictment with treating and publishing as available assets, certain bad debts, to an amount far exceeding the capital of the bank, and with fraudulently representing and publishing that the bank

was in a sound and prosperous condition, and capable of paying a certain dividend, and of carrying forward a certain amount to the following year's profit and loss account.

Under the second head of the indictment some of the panels were further charged with breach of trust and embezzlement, inasmuch as each of them did in breach of his trust and duty as a director of the bank embezzle and appropriate to his own use, or to the use of the firm with which he was connected, certain specified large sums of money ranging in amount from about £30,000 to over £300,000.

The third head of the indictment charged all the directors with theft, inasmuch as they did "wickedly and feloniously steal and theftuously away take" certain bills of exchange which had been left with them by customers for collection and credit of account at maturity, and did instead discount the same and apply the proceeds for the purposes of the bank.

The indictment resolved itself substantially into the three foregoing heads of making and issuing false balance sheets, breach of trust and embezzlement, and theft.

On the discussion of the relevancy of the indictment, the counsel for the prisoners argued that the indictment was altogether bad, inasmuch as the first head was not sufficiently specific, and because it was contradictory and unintelligible; and particularly that the eighth count of the first charge, viz., that bad debts far exceeding the capital of the bank had been treated as good assets, should be struck out, because it did not specify the debts which were bad and irrecoverable.

With regard to the second head, counsel argued that the directors committed no crime in sanctioning advances to themselves, and did nothing that was not quite within their discretion in so doing.

With regard to the third head, they submitted that, in sending the bills to London for discount, the directors, though they might have been guilty of some irregularity in sending them prematurely, were not guilty of theft, inasmuch as they placed the proceeds of the bills to their customers' credit at maturity, and only used the proceeds for the purposes of the bank in the meantime in their discretion as agents for their customers.

As the result of the argument on the relevancy, the Lord Advocate for the Crown withdrew the eighth count of the first head of falsifying the balance sheets, on the ground that he was not in a position to give the details of the bad debts treated as good assets. And the Lord Justice Clerk disallowing the other objections raised by counsel against the relevancy, the indictment, amended as above, was placed before the jury.

During the course of the trial, however, the Crown found it necessary to abandon the two charges of embezzlement and theft; and the only charge which was ultimately put before the jury for their verdict was that of fraudulently falsifying and issuing the balance sheets.

To enable the reader more clearly to follow the charge which was preferred, we shall here give a copy of the balance sheet of 5th June, 1878, as issued by the directors, together with a *pro forma* balance sheet of the same date, made up for the sake of comparison, after giving effect to the falsifications charged in the indictment. And, as further illustrative of the falsifications, we shall also give a copy of the balance sheet of the bank on 1st October, as made up by the investigators.

I. ABSTRACT BALANCE SHEET, AS AT 5TH JUNE, 1878.

As issued by the Directors.

LIABILITIES.			ASSETS.		
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents	£8,102,001 0 4		I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security	£8,484,466 9 2	
II. Bank Notes in Circulation in Scotland and the Isle of Man . . .	710,252 0 0		II. Advances on Heritable Property, and Value of Bank Buildings and Furniture at Head Office and Branches	265,324 9 0	
III. Drafts Outstanding, due, or with a currency not exceeding twenty one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents	1,488,244 18 6		III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches .	845,963 1 0	
Liabilities to the Public . . .	£10,300,497 18 10		IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents .	£2,296,839 12 6	
IV. Capital Account	£1,000,000 0 0				3,142,802 13 6
V. Reserve Fund .	450,000 0 0				
VI. Profit and Loss Liabilities to the Partners	142,095 12 10				
		1,592,095 12 10			
		£11,892,593 11 8			£11,892,593 11 8

II. PRO FORMA ABSTRACT BALANCE SHEET, AS AT 5TH JUNE, 1878.

Made up after giving effect to the falsifications charged in the Indictment.

LIABILITIES.				ASSETS.			
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents		£9,043,285	13 9	I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security	£12,005,380	0 10	
II. Bank Notes in Circulation in Scotland and the Isle of Man . . .		799,283	0 0	II. Advances on Heritable Property, and Value of Bank Buildings and Furniture at Head Office and Branches	265,324	9 0	
III. Drafts Outstanding, due, or with a Currency not exceeding twenty-one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents		2,881,252	18 6	III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches . . .	626,440	15 2	
Liabilities to the Public . . .		£12,723,821	12 3	IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents	1,370,075	12 6	
IV. Capital Account	£1,000,000 0 0						
V. Reserve Fund .							
VI. Profit and Loss Liabilities to the Partners	16,220 3 10	1,016,220	3 10				
		£13,740,041	16 1				
Discrepancy between this and the Cr. side		527,179	1 5				
		£14,267,220	17 6		£14,267,220	17 6	

The above discrepancy can be largely accounted for by the £450,000 of Reserve Fund, which the indictment charged the directors with having raised by means of interest charged on advances, but never actually received.

III. ABSTRACT BALANCE SHEET, AS AT 1ST OCTOBER, 1878.

As issued by the Investigators.

LIABILITIES.		ASSETS.		
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents	£8,798,788 13 4	I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security		£5,996,792 3 0
II. Bank Notes in Circulation in Scotland and the Isle of Man . . .	863,403 0 0	II. Advances on Heritable Property, and Value of Bank Buildings and Furniture at Head Office and Branches		211,074 10 8
III. Drafts Outstanding, due, or with a currency not exceeding twenty-one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents	2,742,105 14 11	III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches . .	£418,363 16 4	
		IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents . .	587,083 7 0	
				1,005,447 3 4
		Balance, being Loss		5,190,983 11 3
	£12,404,297 8 3			£12,404,297 8 3

NOTE.—To the above Balance of Loss £5,190,983 11 3
Falls to be added the Capital. 1,000,000 0 0

Making the total Loss £6,190,983 11 3

During the examination of Mr. Jamieson it was elicited that the bank had lent the enormous sum of nearly six millions to five different firms, all of whom were insolvent; and the inference was that to hide these bad debts was the motive of the directors in the fabrication of the balance-sheets.

The following are the names and amounts of these bad debts, viz. :—

James Morton as an individual, and his firm of James Morton and Co., Glasgow . .	£2,173,000
Smith, Fleming, and Co., London . .	1,968,000
James Nicol Fleming, Glasgow . . .	1,238,000
Lewis Potter as an individual, and his firm of Potter, Wilson, and Co., Glasgow .	108,000
J. Innes, Wright, and Co., Glasgow . .	485,000
	£5,972,000

Of the above, Potter and Wright only were directors. Nicol Fleming was a former director, and no doubt was responsible for much that was done, for, on the apprehension of his quondam colleagues, he left the country. Morton was not a director, at least not ostensibly; but this person seems to have been on intimate terms with the members of the board, and to have acted on occasions as a general adviser.

Granting the motive for falsifying the balance-sheets, in order to hide the enormous indebtedness of the five insolvent firms already named, on turning to the first and second of the balance-sheets already given, and comparing them together, it will be readily seen how well that issued by the bank was calculated to deceive, and to inspire the public with unmerited confidence.

There does not seem to have been very much method displayed in manipulating the accounts. The primary object seems to have been to arbitrarily alter any figures, which would, when effected, present the best appearance to the public eye, and most nearly correspond relatively to the figures of the other banks' balance-sheets.

It would have damaged their credit irretrievably, for instance, if they had issued a true balance-sheet, such as No. 2 above, which shows cash in hand and Government Stocks, &c., of £1,996,000 only, wherewith to meet liabilities to the public of £12,723,000, the cash in hand, &c., thus showing a proportion to liabilities of about 15 per cent. only. Up till a few years ago it was an old tradition in the banking world that the proper proportion of cash in hand, &c., to liabilities should be about one-third, or 33 per cent. Hence we find the City of Glasgow Bank in its manipulated statement (see No. 1) showing a proportion of slightly over 30 per cent.

The figures seem to have been altered chiefly to meet this requirement, but with the view at the same time of making as good an appearance in the various items as possible, so as to bolster up their credit in London and elsewhere, as long as they could. For instance, the *under statement* of their acceptances to the extent of £1,393,000 was evidently done to hoodwink the London bill market upon which the great bulk of their acceptances were placed, for they would be perfectly well aware that the London market would not tolerate for a moment such an amount as the true amount, especially as it was apparent that the acceptances were given to such questionable firms as Smith, Fleming, and Co., and Morton, and their connections.

Then the *over-statement* of the cash in hand and Government Stocks, &c., to the extent of £1,145,000 was no

doubt made to assure the depositors chiefly and other creditors of the bank.

There seems to have been no pressing necessity to understate the deposits on the Dr. side, and the bills of exchange, &c. on the Cr. side, except that by the under-statement of the deposits (and the consequent under-statement of the bills of exchange, to balance) the directors were enabled to show a larger proportion of cash in hand.

It will be understood that the foregoing remarks, although made with reference to the 1878 balance-sheet only, are equally applicable to those of 1876 and 1877. Indeed, we fear they may be applicable to years anterior to these, for it seems as if the first false step were made in 1873, when three advances, amounting to £751,000 in the aggregate, were deliberately deducted from credit accounts under No. 1 head of the assets, and added to Government Stocks; and when a sum of £973,000 was deliberately deducted from the acceptances current, so as to make it appear that the bank were under acceptance to that extent less than they actually were.

Another falsification which was made, and which was greatly calculated to deceive the public, was in the weekly return to the Commissioners of Stamps and Taxes of the gold and silver coin held against the circulation. This return from the week ending 5th January, 1878, till the stoppage of the bank, was regularly over-stated in varying amounts from £20,000 to £293,000.

Proof was led in support of the various charges in the indictment, and pretty conclusive evidence as to the falsification was given.

When the case for the prosecution was closed, high-class witnesses as to character were called for the prisoners; but their general defence, brought out chiefly in cross-examination of crown witnesses, was that they did not under-

stand the balance-sheets; that they were entitled to rely on the officials of the bank; and that they placed the most entire confidence in every statement and figure placed before them. And in one case the prisoner pled that the balance-sheets in question were made up when he was absent from Scotland.

The summing up of the Lord Justice Clerk placed the innumerable and intricate questions involved before the jury in a wonderfully lucid way. He pointed out that a director is not a professional banker, and that he is entitled to rely upon the officials so long as he has no reason to distrust them; but that where special circumstances arise to bring special interests under his notice there is imposed upon him an obligation for inquiry, and, if necessary, for action. He further pointed out that there is one thing a director is bound to have, and that is, in every case, honesty, and that neither the interests of the shareholders, nor the chance of recovering a bad debt, nor any of those other circumstances which, when he is in the midst of a difficulty, almost overwhelm him, justify, excuse, or palliate him in making a deliberate statement which he knows to be false.

Following up these general principles, he proceeded to show from the evidence led, that the director Potter, and the manager Stronach, were directly responsible for the falsifications on the balance-sheets, and that the other directors need not have been cognizant of them at all. After remarking upon the points favourable to the prisoners, such as their having derived no corrupt personal interest from their connection with the bank, and having taken no advances but such as from their commercial standing they were, generally speaking, legitimately entitled to, and their having stuck to their shares to the last, and paid the calls thereon till they were ruined, he left the case in the hands of the jury.

The jury, after an absence of two hours, brought in a verdict of guilty against Potter and Stronach of concocting and fabricating false and fictitious balance-sheets, and thereafter of using and uttering the same; and against the other directors of "using and uttering" only. Sentence was pronounced next day of eighteen months' imprisonment against Potter and Stronach, and eight months' against the others. This was in addition to the three months' imprisonment which all the prisoners (with the exception of Stewart, who was released on bail of £15,000) endured previous to their trial.

As illustrative of the responsibilities of persons holding a fiduciary position acting *ultra vires*, it may be worth mentioning that the liquidators obtained a decree against all the directors for the sum of £6,231,000, for which amount they subsequently ranked on each of their sequestrated estates. This amount was made up as follows:—

Loss directly sustained by advances to nine particular debtors	£5,200,000
Advances to shareholders on security of bank's stock made valueless by the loss incurred under the first item . . .	253,000
Loss incurred from bank's stock held by the bank itself	387,000
Loss incurred through investments in bonds and stocks of the Western Union Railroad Company and Racine Warehouse and Dock Company	391,000
	£6,231,000

We have entered thus fully into the circumstances and surroundings of the failure of the City of Glasgow Bank as the event is one which will unquestionably prove to be

a distinct landmark in banking history, because of the diversity of the issues involved and the magnitude of the losses. It stands out as the most gigantic failure which has ever taken place in the banking world, and as such we think it has demanded something more than a cursory notice.

To exhaust the subject, however, it will be necessary to examine the causes which led to the disaster; and we shall earnestly hope that the result of such examination may be, that in the future it will prove a beacon whereby others may steer clear of the rocks whereon the City of Glasgow Bank became a wreck.

Whenever a bank fails it is almost invariably found that the result has been brought about by some large involvements in the shape of advances on dead and unmarketable securities. In a previous section of this work, as we have already seen, the Western Bank of Scotland was brought down chiefly by having locked up over a million and a half of money by advances to four insolvent houses. The Borough Bank of Liverpool was brought down in the same way; and so was the Northumberland and Durham District Bank by a large lock-up with the Derwent Iron Company.

It has been over and over again enforced in the preceding pages that the most dangerous of all loans are those which are made against unmarketable securities, such as mills, iron-works, coal-mines, landed property, &c., and which from their nature are not likely to be repaid at maturity, but are likely to be asked to be renewed again and again for an indefinite period. Then a time of tightness in the money market comes, when it is necessary to realize every penny; and when this cannot be done, too often the bank and the debtor go down together. It has also been enforced that the granting of such loans is most

often due to a want of decision and firmness on the part of the banker. The latter is perhaps assailed by an influential customer, who so presses his proposal for such a loan upon him, that, being unable to answer with an emphatic "No" when necessary, he allows himself, in a moment of weakness, to be persuaded to agree, and the mischief is then, in the majority of cases, done. For it is easier to get into a large loan than it is to get out of it, and when a loss is once made it requires a great amount of strength of mind to look it in the face and submit to it. The temptation is to throw good money after bad on the off-chance that things will all come right some day. When we say this, of course we do not mean to imply that in every case it is inexpedient to "nurse an account." This is frequently done with the best results; but the determination to attempt it must be governed by circumstances, and in view of the *fact*, as experience has proved, that it is always a dangerous movement, and that the chances are always very much against the success of the result.

To locks-up of the kind above alluded to, the failure of the City of Glasgow Bank was largely due. We have seen who were its principal debtors, and it only remains to say that these gigantic totals were built up by degrees, and in the hope that the additional supplies would enable the debtors to ultimately wipe off the whole. As an example let us take Smith, Fleming, and Co.'s account. It transpired at the trial that that firm were indebted to the bank in 1870 to the extent of £150,000 only, which sum was entirely covered by securities. But in consequence of a serious loss by their Liverpool correspondents, Nicol, Duckworth, and Co., about that time, they determined to stop payment. In an evil hour, however, both for themselves and the bank, they communicated their intention to the latter, who, not liking the prospect of a *possible* loss,

pressed them to go on, and offered them further help. This is an instance—not, perhaps, of the *principle* of nursing an account, but of the foolishness of nursing such an account in the way they did. Granting the propriety at this stage of carrying them on in the hope of setting them on their feet again (for it must be remembered that Smith, Fleming, and Co. had an enormous commission business which brought them in nearly £100,000 per annum), it altered the matter altogether when this could only be done at the cost of advancing them other £500,000. Unfortunately the bank did this, and thereafter they were compelled from time to time for years to add to their advances, until at the date of the stoppage they amounted to nearly two millions. The securities the bank took against this debt were of the most heterogeneous description, and embraced tea-garden property, and shares in steam, telegraph, oil, cotton, and tool-factory companies, besides debts of several failed firms. It is obvious how unsaleable many of these securities were, and consequently how exceedingly dangerous it must have been to have advanced against them.

The debts of the other large debtors were built up in much the same way, except that in their cases the debts were already in 1870 immeasurably beyond their legitimate requirements; showing that the business of the bank was utterly rotten many years before it was ever suspected. The securities taken for these debts were even less of a proper banking description than those taken from Smith, Fleming, and Co., and consisted chiefly of property in New Zealand and Australia, shares in the New Zealand and Australian Land Company, liens upon wool, &c., all thoroughly unmarketable.

In addition to holding these securities for money advanced, it will be scarcely credible that the bank also

actually purchased land in New South Wales, Queensland, and New Zealand, as investments. They deliberately minuted resolutions in 1876 and 1877, authorizing a sum of half a million to be spent in this way. This they did in the expectation that they would thus recoup themselves the large loss which had already accrued on J. Nicol Fleming's debt, and they based their expectation on the calculation that they could finance the purchases at a cost of 6 per cent., and that the investment would bring them in 16 per cent.

In this way, in addition to their own absolute holding of land, the bank were interested, directly and indirectly, in the New Zealand and Australian Land Company, to the extent of nearly a million and a half, out of a total capital of two and a half millions.

But to go back to the events which took place immediately after the stoppage of the bank on the 2nd of October. We have shown the effects that followed the event in Scotland. In London, the centre of the monetary world, and in the country generally, the effects were far-reaching and serious, although not generally disastrous.

One of the first effects of the shock to credit was seen in the eagerness with which all the banks in London and the provinces, and in Scotland, strengthened their hands in case of emergency. During the first three weeks of October the "other deposits" (those of the banks and the general public) of the Bank of England increased over seven millions—thus showing the determination of the banks to keep themselves strong. During the same period also the reserve decreased nearly four millions, thus showing the extent of the preparations of the banks to meet with notes and hard cash any immediate demands upon them. It thus appears that the banks throughout the country strengthened their hands by eleven millions of

pounds, and as this sum must have been provided chiefly by calling up loans, and by declining fresh loans and discounts, it measures to a certain extent the inconvenience imposed upon the general public by the deprivation of their wonted accommodation.

This sum of eleven millions, although large, is by no means so large as might have been expected considering the gravity of the position. The crisis was simply a banking one, brought about by a specific cause, but it was not aggravated by any widespread commercial distrust, or any scarcity of money.

When money was scarce at the end of 1873, when no panic prevailed, we have seen that the bank was charging 9 per cent. for discounts and 12 per cent. for advances; while at the period we are now speaking of, when money was plentiful, the bank was only charging 6 per cent. for discounts—and that only for a few weeks—notwithstanding the existence of a serious crisis which for a time daily threatened to become more serious.

It will easily be understood that one of the first effects of the bank failure, and the consequent contraction of accommodation, would be seen, as was the case, in numerous failures all over the country. It is, however, only right to say that in crises of this kind, well-conducted and sound firms rarely suffer very materially by restriction of accommodation. It is only firms whose credit is of an inferior description, and whose conduct is not all that could be desired, who first feel the effects of periods of discredit. Bankers never refuse legitimate accommodation to the customers in whom they have faith, even in the tightest of times. This accommodation, however, must necessarily be governed by the banker's means, and it happens—and this is one of the many drawbacks of a banking crisis—that the soundest firms are often put to serious incon-

venience from the restrictions which their bankers in self-defence find it necessary to impose. On the other hand, however, a crisis always presents this advantage—and it is, perhaps, the only advantage that it does present—it most certainly searches out the weak and ill-conducted and speculative firms, and roots them out of the field as so many tares, and leaves the ground free for the proper development of healthy concerns which previously had been handicapped by the competition of speculative enterprises, the persons interested in which had everything to gain and nothing to lose.

As a direct consequence of this period of suspicion and restricted accommodation many such firms did fail. On the 11th also, the firm of Heugh, Balfour, and Co., warehousemen, of London and Manchester, in the East India trade, failed, with liabilities of about a million. This firm at one time was of the highest respectability, and in the best of credit, and possessed of large means; but of late years, in consequence of paying out partners, and endeavouring to do the same large business with a diminished capital, it became little more than a mere rotten nut, and had to succumb to the inexorable law which in seasons of pressure stamps out all such invertebrate concerns.

Although the acute stage of the crisis may be said to have terminated by about the end of October, there were too many disquieting rumours afloat after that period to allow it to pass away completely. No sooner did things appear as if they were about to settle down again, than fresh anxiety was raised by adverse reports as to the stability of the West of England Bank in Bristol. These reports were circulated with more or less persistence all through November, and they were accompanied by rumours affecting the position of several other banks, chiefly in the coal and iron districts. Fortunately the *worst* fears were

not realized, but unfortunately more than enough were realized to create the greatest forebodings as to the future, and to throw back the recovery from the crisis, indefinitely.

On the 26th November, the private banking firm of J. and J. Fenton and Sons, of Rochdale, failed with liabilities of about half a million. This failure created little surprise in any quarter, and no excitement except locally. For some time the firm had not been in the highest repute in consequence chiefly of one of the partners carrying on the incongruous business of a speculative stockbroker in addition to banking. This led to persistent withdrawals of deposits, which at last necessitated a stoppage, as the assets were as usual in such unrealizable form as to render it impossible to meet the demand.

The West of England Bank, to which rumour had pointed for weeks, failed on the 9th December with liabilities of about five millions. This failure was brought about by causes somewhat similar to those that brought down the City of Glasgow Bank. This bank was heavily locked up in Fothergill, Hankey, and Co., and the Aberdare and Plymouth Iron Companies, whose failures we have already noticed in an early part of this section. It was also heavily locked up in the Bwllfa Colliery Company, and in the firm of J. W. Booker and Co., Limited, of Cardiff.

In other respects the case of this bank was similar to that of the City of Glasgow Bank. At the instance of the Crown the directors of this bank were also indicted for the issue of false balance-sheets, but after a patient trial they were acquitted of the charge.

Having entered so fully into the history and causes of the failure of the Glasgow Bank, it is unnecessary to go into details respecting the Bristol Bank. Suffice it to say, and this we cannot repeat too often, or emphasize too

strongly, that it was brought down by much the same causes—viz., by heavy advances on inconvertible securities. This is another proof, if further proof were needed, of the danger of lending large sums of money to one or two firms—and especially to firms whose prosperity is so peculiarly dependent upon the existence of a general activity in trade.

It is easy to understand how such loans are in the first instance made. Trade is extremely brisk, we shall say, and the wealthy coal-owner, or iron-master, or cotton-manufacturer, not content with the large profits he is making, is tempted by the idea of making them larger. He goes to his banker and shows him very plainly how he can, by sinking another shaft, or erecting another furnace, or building a new mill, add immensely to his income. The banker, anxious to oblige a good customer, and looking at the proposal in the light of commercial sunshine, when no cloud is to be seen, and when it seems impossible that a storm can come, gives the desired advance. By-and-by trade grows dull on the Continent, or America, or here, or in India, and there is no demand for coal or iron or cotton goods; then the new works which had been gone into to meet the demand during the time of inflation, are no longer needed, and soon are laid aside for the time being. But money has been sunk in these works all the same, and interest on this capital has to be paid, in addition to an expenditure to keep the works from falling into a dilapidated state. But these charges cannot be met out of income in the bad times, and the party has again recourse to his banker, who, to save himself from loss, gives a fresh advance, and so on. Then the dull trade reduces profits, or makes them vanish altogether; then failures take place and create alarm; then alarm brings a crisis in which the bank which has made advances of this kind (and it always becomes perfectly well known locally which

banks are most given to doing this sort of business) is run upon, and being unable in proper time to realize these unmarketable securities, a stoppage is the inevitable consequence.

It is scarcely necessary to say that we do not condemn all loans of this description without exception. Every such proposal should be looked at, and dealt with, entirely on its merits, and without foolish confidence on the one hand or undue timidity on the other. It is one of the most important functions of a bank to develop the resources or the industries of its district by judicious monetary aid. What we condemn is the *abuse* of the system, by the granting of loans of a magnitude such as would imperil the bank in time of panic.

Then during the first day or two of January, 1879, in consequence apparently of the somewhat general banking distrust prevailing, and of the recent death of a partner, whose money, it was feared, would be taken out of the business, a run was made upon the banking firm of Tweedy, Williams, and Co., of Truro, and they were obliged to stop payment on the 4th, with liabilities of about £650,000. This failure seems to have been caused through ill fortune alone, and not through any gross mismanagement. At a meeting of creditors a composition of 16*s.* in the pound was accepted, and a resolution expressive of sympathy with the partners was passed. The business of this bank was subsequently resuscitated in a joint-stock form under the title of the Cornish Bank, Limited.

As if the failures, and rumours of failures, amongst the country banks were not enough at this period of great anxiety, some individuals concocted, and spread abroad, certain diabolical rumours respecting some of the London banks. But when they directed their chief attack against one of the largest of them all, the absurdity of the rumours

showed the cloven hoof so plainly as to render it very easy to connect them with certain operators on the Stock Exchange who had large "bear" accounts open in bank shares. The result of their operations, in conjunction with a certain amount of fright on the part of shareholders, especially in unlimited banks, was that these securities were depressed by between 20 and 30 per cent.

We have said that the *acute* stage of the panic terminated about the end of October. After that period confidence was again beginning slowly to be felt, but the restoration of confidence was seriously interfered with by Fenton's and the West of England Bank failures. And just when the effect of the latter was beginning to wear off, the commercial world was doomed to still further disappointment, and the return of confidence was once more retarded, by the Cornish Bank failure in the beginning of January.

To complete the record of banking disasters during this period, the failures must be mentioned of Vivian, Grylls, Kendal, and Co., of Helstone, Cornwall, on the 4th of February, and of Swann, Clough, and Co., York, on the 8th of May. They were both old established concerns. The former failed in consequence of a steady drain upon the resources of the bank ever since the date of the failure of Tweedy, Williams, and Co., and the latter in consequence, it was understood, of an unrealizable lock-up, as usual.

With the failure of Vivian's, of Helstone, the crisis of 1878 may be said to have passed away. Confidence was soon thereafter fully restored. But although this was so, trade did not revive, and since that period, with the exception of an occasional spurt in particular branches, it has remained at a uniform dull level, and we are at the moment of writing still waiting for the long looked-for reaction from dullness to activity.

SECTION XXXVIII.

RECENT BANKING LEGISLATION.

IMMEDIATELY after the failures of the City of Glasgow and West of England Banks, and the blow which was thereby dealt to the principle of unlimited liability, it is not to be wondered at that bank shareholders began very carefully to scrutinize their position in the light of these two great catastrophes. And although it will readily be admitted that this principle has served its object well, and has built up our banking system to its present strength, it must be confessed that it was more than human nature could reasonably be expected to endure that shareholders should quietly remain under a responsibility the extent of which they never dreamed of until it was brought so painfully before them by the ruin of the great bulk of the proprietors in these two unfortunate concerns.

It is true that such a disaster as that of the failure of the City of Glasgow Bank is unprecedented in the annals of banking; and though it may be true that such a disaster is unlikely ever to happen again, yet shareholders properly thought that it behoved them to guard against any contingency of the like nature by either selling out of unlimited companies, or by agitating that the banks with which they were connected should register under the limited liability Acts.

Nor was this an unreasonable action or an unreasonable agitation on their part, for it must be admitted that the return on their investment—to all, at least, but to share-

holders of long standing, amounting, in the best banks, to no more than 4 or 5 per cent., was totally inadequate to compensate them for the risks they ran. And it was moreover properly argued, that it was but fair that the depositing public of banks should take some of the risk upon their own shoulders, in return for the convenience granted them by their bankers keeping their accounts, and giving them other privileges and facilities, whereby they were enabled to make profit.

These being the views very widely held by shareholders and others deeply interested in the soundness and good government of our commercial affairs, public expression in many forms was given to them.

During the acute stage of the crisis, men's minds were too full of other things to give much heed to such topics, but as soon as this stage had been passed, the indiscriminate selling of unlimited bank shares which had been initiated during the crisis by panic-stricken shareholders, was deliberately carried on by the more thoughtful of them, who were desirous of getting rid of a burden which they conceived they were not justified in sustaining. These sales, in conjunction with the expression of the well-weighed opinions of many who were entitled to speak on such a subject, necessarily forced the whole question upon public attention.

Hence, in meetings of the Social Science Association, and of banking institutes, in the daily and weekly papers, and in the Houses of Parliament, the whole subject was fully discussed. In the House of Commons many attempts were made by private members to deal with the question, but although each offered some good suggestions, and contributed valuable material to the consideration of the subject, not one could command sufficient support to

render his scheme likely to meet with acceptance, and the bills one and all had to be withdrawn.

These abortive attempts at legislation were useful in their way, for they helped to keep the question before the public, and drew attention to the points in our banking system requiring reconsideration, as evidenced by the recent failures. It was evident, however, that no legislation on such an important subject could be satisfactory unless it was effected under the responsibility of the government; and accordingly the government, under the pressure of public opinion, determined to deal with the matter themselves.

In February, 1879, the Chancellor of the Exchequer, in the House of Commons, indicated the intentions of the government; but as these seemed to contemplate no more than to make the provisions of the Act of 1862 more elastic, and to give greater facilities for registering under that Act, and to amend certain technical difficulties which had cropped up under it, they were considered wholly inadequate.

Meanwhile the question was further ventilated by the introduction of other bills by private members impatient of delay, and by meetings of different classes of joint-stock banks. In this way time was gained to look at the matter from all sides, and there was thus less fear that it would be dealt with in a slipshod fashion, or under the influence of panic feeling, which might have led to drastic and heroic remedies, which might possibly have proved worse than the evils they sought to cure.

Having patiently obtained all the information it was possible to get, the Chancellor of the Exchequer on the 21st of April introduced his measure, entitled, "A Bill to amend the Law with respect to the Liability of Members of Banking and other Joint-Stock Companies, and for other purposes."

The main objects of the bill were to establish the new principle of "Reserve Liability," giving a reserved liability as regards the general debts of the company, but an unlimited liability as regards the note issues; to enact that all banks registering under the act should take the title of "The —— Reserve Liability Banking Company," or, "The —— Banking Company, Limited by Reserve;" to provide for a compulsory and independent audit; and to prescribe a uniform form of balance-sheet.

The characteristic of reserve liability, as set forth in the bill, was that the amount thereof should only be called up in case of failure, and for the purposes of the liquidation; and that it should amount to a sum equal to, or some multiple of, the nominal amount of the share in respect of which it was payable.

In addition to these objects there was another very important one, to the effect that no bank of issue should be allowed to register as a reserve liability company so long as it had any establishment as a bank in any part of the United Kingdom other than that in which the head office or principal place of issue was situate. This was the eighth clause.

This eighth clause was of course received with strong disfavour by the Irish and Scotch banks. It will be seen that it was aimed directly against them, for some of the Irish and nearly all the Scotch banks of issue had offices in London, while none of the English banks had offices in Ireland or Scotland. The effect of the clause, had it been passed, would have been to have driven the unlimited Scotch and Irish banks out of London, if they had taken advantage of the permissive powers of the bill.

This was an endeavour to do by a side wind that which was directly attempted to be done in 1875 by a bill introduced into the House of Commons by Mr. Goschen, at the

instigation chiefly of some of the London and English provincial bankers. At that time the matter was very fully discussed, both in and out of Parliament, and a committee of the House of Commons was appointed to take evidence and consider and report on the subject.

This committee sat for a long period and took voluminous evidence, which was merely reported to the House, but with respect to which no recommendation was made; and the government thereupon declined to give any countenance to Mr. Goschen's scheme, and he did not proceed further with his bill.

It was, therefore, all the more to be regretted that the same government should have grafted on to the stem of its otherwise admirable bill, an excrescence which was entirely foreign to its principle and its scope. It is the function of government to look after the interests of the general public, and not, however innocently, to play into the hands of a small and interested class, as it assuredly would have done had it driven the Irish and Scotch banks out of London, and thereby reduced wholesome competition, and given a practical monopoly to the other London bankers.

Strong representations were made to the government with respect to the eighth clause, in memorials from the Irish and Scotch banks, and separately from the Royal Bank of Scotland, the latter pointing out that its position in London was secured by Act of Parliament, passed in 1873, with the full approval of the committee of the Association of English Country Bankers.

With the exception of this clause the bill was generally cordially approved of by the Irish and Scotch banks. And at a meeting of the London joint-stock banks the bill was carefully considered and discussed, and the views expressed were afterwards embodied in a letter to the Chancellor,

which was presented to him by a deputation from their number. This letter expressed the general approval of the London banks of the measure, but suggested certain modifications relating to the common title of banks registering under the Act, to the form of balance-sheet, the audit, &c. Subsequently, on the invitation of the Chancellor, the London banks prepared a form of balance-sheet for incorporation in the bill, embracing all the salient points which it was considered expedient for the public to know.

From the time Sir Stafford Northcote introduced his bill in April, nothing further was done in the House of Commons respecting it until the 22nd of July, when it came on for second reading. Meanwhile, however, much discussion had taken place outside upon all its details. The Scotch and Irish banks were up in arms against the eighth clause. The limited banks naturally deprecated any legislation at all, as they were desirous to keep all the advantages arising out of limitation to themselves. The unlimited banks just as naturally approved in general terms of the objects of the bill. The public viewed the matter from their respective standpoints, and acted accordingly. The subject having thus been so fully ventilated outside, it was discussed in the House of Commons with great fulness and intelligence, and it was at length put into a shape which commanded general approval.

The Chancellor, in his speech on the second reading, admitted the force of the representations made to him by the Irish and Scotch banks, and withdrew the objectionable eighth clause altogether. It cannot be said, however, that this was done with a good grace, for, under the same influence apparently which inspired the eighth clause, he seemed to seek to attain the object of that clause in another way. He proposed to eliminate Ireland and Scot-

land from the operation of the bill, on the ground that the session was so far advanced as to leave no time to deal satisfactorily with so large a subject; and he promised a measure in the next session dealing with the banks of those two countries. This project was so strongly objected to by the Irish and Scotch members, who plainly intimated that they would not allow the bill so mutilated to pass, that the Chancellor was again forced to yield. Accordingly the discussion was proceeded with, on the understanding that the bill should apply to the whole kingdom; and, ultimately, the second reading was passed, and the bill committed *pro forma*.

A fortnight later the House went into committee on the amended bill.

It is needless to describe in detail the discussions which led to the alteration of the bill in many material points. Suffice it to say that the clause which proposed to enact that all banks registering under the Act should take the title of "reserved liability" was expunged, and in its place a simple provision was inserted, extending the scope of the Companies' Acts of 1862 to 1877, which require the affix of the word "limited" to the title of any company registering thereunder.

At this point, in consequence of the multiplicity of counsel, and the antagonistic interests involved, the bearings of the discussion seemed in danger of being lost; but, at the instance of Mr. Shaw, the member for Cork, who led the committee out of the difficulty into which they had got, the *principle* of reserve liability was retained. Mr. Shaw proposed that "An unlimited company may, by the resolution passed by the members, when assenting to registration as a limited company under the Companies' Acts, 1862 to 1879, and for the purpose of such registration, or otherwise, increase the nominal amount of its

capital by increasing the nominal amount of each of its shares: Provided always that no part of such increased capital shall be capable of being called up, except in the event of, and for the purpose of, the company being wound up."

"And in cases where no such increase of nominal capital may be resolved upon, an unlimited company may, by such resolution as aforesaid, provide that a portion of its uncalled capital shall not be capable of being called up, except in the event of, and for the purposes of, the company being wound up."

"A limited company may by a special resolution declare that any portion of its capital which has not been already called up, shall not be capable of being called up, except in the event of, and for the purpose of, the company being wound up; and thereupon such portion of capital shall not be capable of being called up, except in the event of, and for the purposes of, the company being wound up."

The first paragraph of this clause (the fifth in the Act) was designed to meet the case of unlimited banks whose capital was all paid up, and who might desire to register under the Act, but who would practically be debarred therefrom because of their thereby making themselves *absolutely* limited, as would have been the case under the clause as it originally stood in the bill.

Mr. Shaw having thus extricated the committee from a difficulty which at one time seemed insurmountable, the remaining clauses were rapidly proceeded with and disposed of.

The bill was finally passed on the 15th of August, 1879, and it now constitutes the Act 42 and 43 Vict., c. 76, entitled, "An Act to amend the Law with respect to the Liability of Members of Banking and other Joint-Stock

Companies, and for other purposes," which contains the following clauses:—

1. Act may be cited as the Companies' Act, 1879.

2. Act shall not apply to Bank of England.

3. Act shall be construed as one with the Companies' Acts, 1862, 1867, and 1877, and those Acts, with this Act, may be referred to as the Companies' Acts, 1862 to 1879.

4. Any company registered before or after the passing of this Act as an unlimited company may register under the Companies' Acts, 1862 to 1879, as a limited company, or any company already registered as a limited company may re-register under the provisions of this Act.

The registration of an unlimited as a limited company shall not prejudice any debts entered into prior to registration.

5. Is Mr. Shaw's clause, referred to above.

6. Provides that a bank of issue, registered as a limited company, either before or after the passing of this Act, shall not be entitled to limited liability in respect of its notes.

7. Provides for a compulsory and independent audit once at least every year, by auditors appointed by the shareholders.

8. Enacts that every balance-sheet shall be signed by the auditors, and by the secretary or manager, and by at least three of the directors.

9. Contains provisions for closing the registration of a company formerly registered, and dispenses with the delivery of the necessary documents when re-registering under this Act.

10. Company registering under this Act may avail itself of the privileges conferred by the Act, notwithstanding any provisions contained in any Act of Parliament, Royal

Charter, or other instrument constituting or regulating the company.

In the above form the bill was passed, and it will therefore be seen that the idea of a uniform balance-sheet was given up.

There can be no doubt that the Act, although far from perfect, is a step in the right direction, and secures to creditors a better class of shareholders than was likely to exist upon the old basis, when it was brought home to them by the bank failures what risks they ran.

The Act being a purely permissive one, it was not to be expected that a great rush would be made by the unlimited banks to take advantage of its provisions. The change of the relations between the shareholders—the debtors, and the depositors—the creditors, was too sweeping to admit of any hasty or ill-considered action. Although the shareholders had no doubt of the advantage of the change to them, they feared that the reduction of the security might frighten depositors, and lead them to remove their business to banks remaining unlimited. Hence, although the unlimited banks had approved of the measure, and had used their influence to get it passed, after it became law there was some reluctance exhibited to take advantage of its provisions, and no bank seemed to care to be the first to make the experimental plunge. At length, however, on the 24th of October, a meeting of the unlimited banks was held in London to consider the subject, and the conclusion was generally come to that it would be advisable to register under the Act. Accordingly, shortly afterwards, announcements were made by some of the leading London and country banks that they would do so. Among these may be mentioned the London and Westminster, the National Provincial, the London and County, and the Manchester and Liverpool District banks. And

the ice having been broken by such high-class institutions, others followed suit in quick succession. A still greater impetus was given by the remarks of the chairman of the London and Westminster Bank at its annual meeting in the following January. He stated that since the bank had come under the Act, the number of accounts and the amount of deposits had increased, and the proprietors had become of a better class. We believe this is the experience of the large majority of the banks which have registered. It is natural that it should be so, for the public are wise enough to see that the *limited* liability of a wealthy proprietary is a greater security to them than the *unlimited* liability of men of straw, into whose hands there is a danger of such shares falling, since the risks of holding them have been proved to be so great.

Of the high-class London banks, the Union and the Joint-Stock are still holding aloof from registering, as they consider a sufficient time has not yet elapsed since the registration of their neighbours to test the expediency of doing so themselves.

The chief object of the Act of 1879 being, as we have seen, to *restrict* the liability of shareholders by giving permissive power to create a limited reserve liability instead of an unlimited liability; or to declare, in the case of companies already partially limited, that their uncalled capital should be converted into a reserve liability, and *not* to give power to such companies as already happened to be absolutely limited, to *extend* their liability; there were a certain small number of banks existing in the kingdom which were shut out from the advantages of the Act.

Among such banks were the five old chartered banking corporations, viz.:—The Bank of England, the Bank of Scotland, the Royal Bank of Scotland, the British Linen Company Bank, and the Bank of Ireland. These five

banks, by virtue of their constitution as chartered corporations, were debarred from placing themselves under the Act, which only provides for the re-registering of companies already registered under the "Companies" or other Acts.

These banks stand in a unique position as regards all other banks in the kingdom. They were incorporated by Act of Parliament or by Royal Charter long anterior to the Act of 1826 permitting the formation of joint-stock banking companies, and, as a necessary incident of their incorporation at common law, the liability of their shareholders is limited.

As there has been some discussion on this subject recently, and as it has been doubted whether this is the position of the chartered banks, it may be well to look for a moment at the authorities for the dictum.

In 1826 Select Committees of the House of Lords and the House of Commons on Promissory Notes reported to their respective houses that members of chartered companies were by virtue of their charters protected from personal responsibility beyond the amount of their respective shares.

And Sir Robert Peel in his Bank Act of 1844, and his Irish and Scotch Acts of the following year, specially exempted the five banks named from the obligation of making an annual return of the names of their members to the Commissioners of Stamps and Taxes.

In "Bell's Commentaries on the Laws of Scotland," also, in book v. chapter 1, section 3, it is stated that "The chief benefits of a charter to a company, and the most remarkable of its peculiarities when compared with the constitution of private partnership, are that it enjoys the privileges of a corporation; the power to hold lands; to make bye-laws; *to enjoy in its several partners freedom from any responsibility beyond the stock*, with the power of selling their shares, and thereby transferring their right and

character of partners to others who become partners. *The debts of the company affect only its stock*, so that neither can the individual members be prosecuted or have diligence directed against them; *nor can they be called upon to make up any deficiency to the creditors.*"

And coming to our own day, we may mention the opinion of the Lord President of the Court of Session expressed in his judgment in the case of Murdochs Trustees *versus* the Liquidators of the City of Glasgow Bank, already referred to in the previous section. Counsel for the Trustees argued that the City of Glasgow Bank, having been registered under the Act of 1862, became thereby an incorporated company, and that the rules of liability of shareholders in an unincorporated bank were no longer applicable to it. With reference to this argument the Lord President in his judgment said, "If a joint-stock company, by registration under the Act of 1862, becomes without condition or qualification a corporation, with all the characteristics belonging to a corporation at common law, there would be an end of this case. Such corporations are created by special statute or by royal charter for carrying out important public objects, and have also been created occasionally for trading purposes, and notably for carrying on the trade of banking; and in such cases, if the special Act or charter of incorporation does not expressly make the corporators liable for the debts of the corporation, they will not be so liable. The corporation, being a separate person, has its own estate and its own liabilities, and the corporators are not liable *for* the corporation, but only *to* the corporation, within the limit of the obligation they have undertaken to subscribe to the corporation funds. '*Si quid universitati debetur singulis non debetur nec quoad universitas debet singuli debent.*'"

So far from this view being questioned, indeed, it seems

rather to have been doubted at one time whether it were legally possible for the members of a corporation to impose upon themselves voluntarily any liability beyond the amount of their shares. But to set the question at rest, a permissive Act was passed in 1825 (6 Geo. IV. cap. 91), which provided, "That in any charter hereafter to be granted by His Majesty, his heirs, or successors, for the incorporation of any company or body of persons, it shall and may be lawful, in and by such charter, to declare and provide that the members of such corporation shall be individually liable in their persons and property for the debts, contracts, and engagements of such corporation, to such extent, and subject to such regulations and restrictions, as His Majesty, his heirs, or successors, may deem fit and proper, and as shall be declared and limited in, and by, such charter; and the members of such corporation shall thereby be rendered so liable accordingly."

And it is by virtue of this permissive Act that the shareholders of most of the India and China and Australian banking corporations in London are liable for double the amount of their shares.

The Act of 1879 was therefore wholly unavailable to the banks named, and there was no other Act under which they could go whereby they could gain the objects of that Act. But the three Scotch chartered banks having determined to move with the times and provide for their creditors some security beyond their existing large paid up capitals and reserve funds, last November lodged private bills in parliament for that end.

The bills were introduced in the House of Lords, and passed the second reading there, but at that point their further progress was stopped for the time being by the government.

It was understood that the government took up this

position at the instance of some of the English bankers, who objected to any new privilege whatever being granted to any bank; and at the instance of the other Scotch banks, who objected to the senior banks obtaining the privilege of reserve liability without being obliged so to designate themselves. The junior banks foresaw that probably they would be obliged, by the pressure of their shareholders, to register under the Act of 1879, and so have to assume the title of "limited,"[1] and they objected to being compelled thus publicly to announce the fact, while the senior banks, if their bills passed, would be under no such obligation.

The government having blocked the passage of the bills, the banks, their promoters, arranged an interview with the Treasury. At this interview the government stated their objections to the proposed legislation, and a few days later these were formulated in a Treasury minute dated the 24th March, 1881, addressed to the banks.

In this minute the following objections were urged by the government:—

They thought that fresh powers or privileges should not be granted to banks claiming limited liability for note issues; nor to banks claiming limited liability, but not adopting the designation "limited," which is now a requirement of the general banking law; and, moreover, they considered private legislation on a subject of important public policy to be objectionable.

With regard to the note issues, the minute pointed out that since 1845 it had been the traditional policy of every successive government, in granting fresh powers to, or removing restrictions from, privileged banks, to make these dependent on a review of privileges. It also pointed out

[1] The unlimited Scotch banks as a body have since intimated their intention of registering under the Act of 1879.

that while the principle of limited liability for ordinary obligations has, since 1845, received more general acceptance, the legislature has rigorously insisted on unlimited liability for note issues. The government, however, while saying that they were determined to oppose the grant of fresh powers if the three banks continued to ask for them accompanied by limited liability for notes pure and simple expressed themselves as ready to give their best consideration to any proposals by means of which the banks might think it possible to meet the wishes of the Treasury without encountering the difficulties mentioned.

To the non-adoption of the term "limited," the Lords of the Treasury also entertained a strong objection, because it was a leading principle of the Act of 1879 to secure greater uniformity in banking regulations, and that uniformity, in their opinion, would be departed from if the bills were passed as they stood, and without making it obligatory upon the banks to adopt that affix. Moreover, the government considered it expedient that the public should know the status of the banks with which they dealt, and therefore the Act required such banks as might be limited so to designate themselves.

With regard to the objection to legislation by private bill, the Treasury held that no measure of important public policy should be so dealt with; and stated it as their opinion that the proper mode of dealing with the case of a bank whose circumstances debarred it from availing itself of the benefits of the general law, would be by a public Act modifying the general law only to the extent of the proved necessity.

To these objections the banks replied:—

1st. That inasmuch as the liability of the three banks was limited—for the note issues as well as for the general obligations—and having been so recognized by Sir Robert

Peel in his speech introducing the Scotch Bank Bill of 1845, and by parliament in passing the Act, there would be insuperable legal difficulties in the way of imposing upon existing shareholders in respect of the notes an unlimited liability, which they never undertook. While pointing out the impossibility, however, of securing the notes in this precise form, the banks expressed their desire to confer with the Treasury as to the best means to secure the same end in another way.

2nd. That it was a legal impossibility for the three banks to register under the Act of 1879. That Act was available only to unlimited companies, or to companies previously registered under the Companies' Acts as limited, and the three banks were within neither category. The banks further pointed out that so far from the uniformity of banking regulations being broken by the non-adoption by them of the title "limited," it would, in reality, be broken by its adoption, inasmuch as parliament every session, in granting fresh powers to chartered companies, has never required them to designate themselves limited.

The banks also reminded their lordships of a case in point which occurred last year, *i.e.*, *after* the passage of the Act of 1879. Lord Beaconsfield's government introduced a bill in February, 1880, providing for the continuance in perpetuity of the charters (granted for limited periods and with limited liability) to the Indian and Australian and other colonial banks of London, *and giving them powers to increase their capital at will, without requiring them to adopt the designation "limited."* Lord Beaconsfield's government fell before they could pass this bill, and were succeeded by the present (Mr. Gladstone's) government, who, in a Treasury minute, dated 21st July, 1880, expressed general approval of the principles em-

bodied in the bill, and promised to carry them out when practicable.

The banks further submitted, that there was no instance on record of a corporation, or company of any kind, not registered under the Companies' Acts, bearing the name limited, and that the reason therefor was obvious. That term, applied to an unlimited partnership registering under the Companies' Acts, was natural and intelligible, for it denoted that the partners had by registration chosen to alter their relations to their creditors, by limiting their common law unlimited liability. But with a corporation the case was different. A corporation being, not a partnership, but a distinct person in the eye of the law, and being liable only to the extent of its corporate funds, could not assume a title which would not only be misleading, but be an absolute misnomer. The assumption of the word limited by the three banks would signify that they had in some form *restricted* their liability, while in point of fact the change of designation would accompany, not a limitation, but an *extension* of liability, and of security to the public.

With regard to the Treasury's objection to legislation by private bill, the banks submitted that no other course was left open to them, as it was impossible for them, as banking corporations, to come under the Companies' Acts; and they submitted the opinion of several eminent counsel, that in no other way than by private bill could they attain the objects they had in view.

Following upon this correspondence the banks had an interview with the Treasury, with the view of giving further explanations, and endeavouring to meet their wishes with respect to the note issues. At that interview the banks offered to secure the note issues in a more absolute form than by the mere unlimited liability of the

shareholders—they offered to secure them by a special appropriation of government securities to the amount of their present authorized circulation, and of coin to the extent of the remainder of the circulation in the hands of the public. But this advance on the part of the banks did not meet with the cordial response from the Treasury which the former might reasonably have expected, considering the terms of the first minute, wherein their lordships expressed their readiness to consider any proposals by means of which the banks might be able to meet their wishes with regard to security for the note issues.

With reference to this interview, and in reply to the letter of the banks, the Treasury issued another minute, dated the 4th of June. In this minute they addressed their arguments chiefly to the two main points of difference between themselves and the banks, viz., the questions of issue and title. With regard to the title, they simply affirmed that they could see no reason why a bill conferring new powers should not require a limited bank adopting those powers to conform to the general banking law of the United Kingdom, and announce its status to the public beyond the possibility of misapprehension, by adopting the title of "limited."

Respecting the question of issue, the government admitted the difficulty under which the banks would labour if they endeavoured to impose unlimited liability for notes on present shareholders; but they announced in definite terms their determination to grant no new privilege which would hinder or delay the gradual absorption of private issues, with the view of these being ultimately replaced by a State issue.

Accordingly the government declined the offer of the banks to secure their issues by the deposit of government securities and coin, ostensibly on the ground that it would

introduce into private legislation a principle of banking which was new, and which had not received the sanction of Her Majesty's Government.

On the other hand, the Treasury offered to the banks a lease of their right of issue for a number of years certain, subject to the payment of a moderate royalty. This offer was based on the principle of a measure dealing with English banks of issue introduced before parliament by the government of Lord Palmerston in 1865, but never passed into law.

As an alternative offer, the Treasury proposed to the banks that the latter should join the government in considering the terms upon which a State issue of notes, conducted through the agency of all the banks, and maintaining the specialty of the one-pound circulation, might be introduced into Scotland in lieu of the present note circulation of the banks.

In their reply to this minute the three banks maintained the accuracy and justice of their view of the unreasonableness of being required to adopt the affix of "limited," which, they contended, would be in their case a meaningless and inappropriate title, and would put them out of harmony with the designations of the only other two banks similarly constituted in the kingdom.

The question, however, of the note issues was that to which the banks chiefly addressed themselves.

It seemed as if the government had made a complete change of front. In their first minute their chief care was to protect the public, by imposing on the banks, as the price of the powers they sought, unlimited liability for the notes. The banks offered a more absolute security than this, viz., government securities and coin specially earmarked. Then the Treasury said they could not accept this as a settlement of the question, as they were deter-

mined to adhere to the policy of successive governments ever since 1844, to grant no new privilege which would hinder or delay the gradual absorption of private issues.

With reference to this the banks pointed out in their reply to the Treasury that the policy which they professed to follow had been very frequently departed from. Government had very lately granted enlarged powers, capital and otherwise, to the Bank of Scotland and the Royal Bank; had conceded the important privileges, already referred to, to the chartered colonial banks in 1880; and had by the very Act of 1879 granted to every unlimited bank the privilege of limiting their liability—none of which powers or privileges were ever intended to hasten, but, on the contrary, were calculated to delay, the absorption of private issues.

The banks further pointed out that the suggestions offered by the Treasury made it plain that what they desired was the absolute surrender by the banks of their rights of issue, and not the protection of the public, for the Treasury were willing to grant a lease of the rights of issue without any security whatever.

The offer of a lease of the rights of issue was naturally rejected by the banks, who pointed out that those rights were already theirs, and had been exercised under express grants from the Crown or Parliament for from 135 years in the case of the youngest, to 186 in the case of the oldest of the three.

With regard to the Treasury suggestion of a State issue, the banks replied that in their opinion, that would not be acceptable to the people of Scotland, inasmuch as the suppression of the present issues would be more detrimental to the public than to the banks, and would involve the closing of many of the branch banks now existing, and lead to a serious diminution of banking facilities.

The banks wound up their letter by indicating that, in view of the attitude taken up by the government, they would not proceed further with their bills; and the correspondence was closed by a letter from the Treasury regretting that the views of the government did not accord with those held by the banks.

Whatever may be the opinions entertained respecting the result of the applications by the banks—and no doubt such opinions will naturally be largely coloured by the self-interest of those entertaining them—it must be admitted that in themselves the applications seemed perfectly legitimate and praiseworthy. What the banks sought to do was simply to create further capital, a nominal portion of which should be called up, and the remainder held as a reserve liability in the interest of the creditors, and in harmony with the spirit of recent opinion. Many times in their previous history, each of the three banks had been authorized to increase its capital; and there seems to have been no adequate reason for refusing a similar extension on the present occasion, especially when the application was avowedly made in the interests of the public. The banks seemingly could have rested with perfect ease upon the confidence reposed in them by the public, as evidenced by the fact that since the failure of the City of Glasgow Bank, when it became generally known that the three banks were limited, however dimly the fact may have been understood before, the deposits of the three banks have increased over four millions.

And however opinions may differ as to the result of the applications by the banks, it is to be regretted, on general grounds, that the discussion on the part of the government was not conducted with more care and with less appearance of their decision having been arrived at arbitrarily, instead of under the weight of reason.

It will have been noticed that the Treasury minutes were rather contradictory of each other, and that some portions of the same minute stultified others.

In the first minute the Government professed to have the interests of the note-holders at heart, and on that ground intimated that they would refuse the applications of the banks unless they were accompanied by unlimited liability for the notes. The banks offered a more absolute security than this—government securities and gold—which offer the Treasury declined, but they made a counter offer of a lease of the right of issue for a certain number of years, unaccompanied by any protection to the public in the shape of unlimited liability, or any other kind of security, for the note issues.

The Treasury also in their first minute stated as an objection to the bills, that since the banks did not propose to assume the title of limited, it would be a departure from the uniformity of the banking regulations introduced by Sir Stafford Northcote's Act to grant them. With regard to this, the banks showed the Treasury that they had already agreed to depart from this uniformity by promising to the chartered colonial banks to continue their charters in perpetuity without requiring them to take the title of limited.

Further, the Treasury in their second minute, in refusing the offer by the banks of security for the note issues, stated that it had been the policy of the Treasury since 1844 to grant no new privilege which would hinder or delay the gradual absorption of private issues. In answer to this, the banks showed that parliament had very frequently granted privileges which had precisely the opposite effect, and notably so in passing the Act of 1879.

The truth seems to be, that a considerable change came over the views of the government between the issue of

the first minute and the second. And the key-note of the change seems to lie in the enunciation of the principle in the second minute, that "the right of issuing notes appertains to and should be controlled by the State." If this be so, it is perhaps not to be wondered at that the government should have embraced the opportunity of publicly raising the question of their right to the issue, and so paving the way for dealing with the matter when the opportune time should arrive.

While freely admitting the soundness of the principle, as between the government and the banks of issue, that the right of issue should belong to the State, we cannot but think it is much to be regretted that the Treasury should have so hastily declined the offer of the Scotch banks to secure their issues in the way they proposed. That course would have protected the public in the most absolute form; it would have established a precedent which it would be necessary to follow whenever opportunity offered; and it would have saved the government from the necessity at some future day of experimenting with the issues, perhaps at a cost which would render the experiment a failure; and it would, moreover, have saved to the public the banking facilities of which they shall be deprived if the issues be taken from the banks. It must not be forgotten that this is more a question for the general public than for the banks. The removal of the issues from the banks would be but a comparatively trifling circumstance to them, but it would inflict an irreparable injury on the welfare of the country.

As a pendant to the Act of 1879 it may be advisable to mention that a further Act was passed in 1880 (43 Vict. c. 19), empowering any company to return to its shareholders any accumulated profits in reduction of paid-up capital; but requiring at the same time that the *unpaid*

capital should be increased by a similar amount. It also provided that any shareholder might, instead of taking payment in cash, require the company to hold and invest his share of the returned capital to meet any future calls. The Act also gave power to the Registrar of Joint-Stock Companies to strike the names of defunct companies off the register in certain circumstances.

It is enacted that this Act shall be construed as one with the Companies' Acts of 1862, 1867, 1877, and 1879, and that the said Acts, and this Act, may be referred to as the Companies' Acts, 1862 to 1880.

Reference has frequently been made in the preceding pages to the bill introduced by the late government, dealing with the charters of the Colonial banks. As, however, in consequence of the fall of that government, the bill was not proceeded with, it can scarcely be described as forming part of recent banking legislation. It will be convenient, nevertheless, under this section to give some account of the bill, especially as the present government have expressed their general approval of it, and as it will most likely form the basis of some measure to be hereafter introduced.

The charters of the colonial banks were originally granted for longer or shorter terminable periods; and, at the expiration of such times, it was always necessary to have them renewed for a further terminable period. This system having been found somewhat cumbersome, a suggestion was made to the late government on behalf of the banks, that a bill should be introduced into parliament authorizing the perpetuation of the existing charters. This suggestion was favourably received by the government, and in accordance therewith they introduced a measure in February, 1880, entitled, "A Bill to make further provision with respect to certain Chartered Banking (Colonial) Companies, and for other purposes."

The preamble recited that the powers and privileges conferred by the charters of these banks are subject to determination at the times mentioned in the charters, but are capable of being renewed at Her Majesty's pleasure; that the said charters authorize the Treasury to control in certain respects the management of the banks; and stated that it is expedient to relieve the Treasury of its functions in these respects, and leave to the banks the uncontrolled management of their own concerns; but that at the same time it would be inexpedient that such removal of control by the Treasury should involve the determination of the powers and privileges conferred by the charters.

And the bill therefore proposed to enact:—

That the charters of the banks named in the schedule, in force at the date of the passing of the Act, and all powers and privileges therein contained, should, on the expiration of the time at which such charters are respectively limited to expire, continue in the same manner, in all respects, as if there were not in force any provision determining the same.

That power should be given to each of the banks, by special resolution passed by a majority of not less than three-fourths of the shareholders, to increase its capital by the issue of new shares of such amount as might be considered expedient, or consolidate and divide its capital into shares of larger amount than the existing shares.

That nothing in the Act should authorize any of the banks to exercise any power in relation to note issues, or in relation to the establishment of branch banks in any colony, which it is not exercising at the time of the passing of the Act, and to the exercise of which the sanction of the Treasury is required, save with the assent of the governor of the colony where it is proposed to exercise

such power; or, in the case of India, save with the assent of the Secretary of State in Council.

That from and after the passing of the Act the Treasury should cease to exercise the powers and control vested in them by the existing charters.

Provided—That nothing contained in the Act should affect the power of Her Majesty to revoke any charter, in such events as are at present contemplated in such charters.

This bill was referred by the House of Commons to a Select Committee for consideration. The Committee sat, and took evidence, and duly reported to the House, but before anything further could be done in the matter, the government resigned.

Shortly after the accession of the present government to power, however, the colonial banks brought the matter before them, and evoked a reply in the shape of a Treasury minute, dated the 21st July, 1880, of which the following is a copy:—

"My Lords read the bill brought into parliament by the late Board of Treasury making further provision with respect to certain Chartered Banking (Colonial) Companies. They read also the report of the Select Committee to which that bill was referred. They approve generally the principles embodied in the bill, and they would have been willing, if time and other circumstances had permitted, to re-introduce it in the present session, modifying it only to this extent, that they would have reserved to parliament the right from time to time of reconsidering the privileges which the charters confer. But the late period at which the work of the present session commenced, and other circumstances, have made it impossible for them to bring the question before parliament with fair prospect of exhausting the debates which they have reason

to anticipate on the subject of the bill, and of passing it. The chartered banks affected by the bill have now been kept for some time in suspense as to the conditions to be imposed upon them, and my Lords would be reluctant to prolong a state of suspense, which is in no degree due to the action of the banks themselves. They have accordingly considered whether they could adopt a course which would prepare the way for the advantages sought in the bill, while reserving to parliament due power of review; and they propose to attain these objects in the following manner. They will cause a model charter to be prepared, embodying in simple and concise terms the provisions of the bill of the late government, with any general clauses of the existing charters applicable either wholly or with slight modifications to all the banks. On the expiry of a charter, if the bank desires a new charter, my Lords will lay upon the table of both Houses a draft containing the provisions of the model charter, and so much of any special matter in the previous charter as my Lords may decide to be not inconsistent with the said provisions, and after the draft has lain for a certain period unchallenged, they will advise her Majesty in Council to grant the charter to the bank for a further limited period. Many of the charters do not expire for a considerable period. Should, in the meantime, the directors of any chartered bank desire to obtain a supplementary charter, or to resign their charter and obtain a new one, my Lords, if, in the exercise of their discretion, they entertain the proposal at all, will deal with it on the same principles as if the charter had expired by efflux of time. So long as existing charters remain in force my Lords will exercise the powers assigned by such charters to the Treasury according to their best discretion. My Lords will be ready to communicate the model which they propose to adapt to

the different banks concerned, as soon as it is prepared, it being their object to offer no obstacle to the progress of the banks so long as the control of parliament and the simplicity and soundness of the regulations approved by the Treasury are secured. My Lords have only to add that the final arrangements should be such as will reserve to parliament entire liberty in dealing with this as with any other banking question. They will therefore endeavour to fix the limits of time for new charters on such a principle as will eventually ensure concurrence of the periods for which they are granted. A copy of this minute has been sent to each of the banks in the schedule of the Chartered Banks Bill laid before parliament in February last."

Such is the position of this question at the present moment, and it still remains to be seen what legislation, if any, will be proposed for the relief of the colonial banks by the present government.

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